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RINCIPLES AND METHODS OF TAXATION

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PREFACE

THE object of this work is to present in a concise and simple form an account of the British system of taxation and the principles on which it is based, together with some of the leading historical facts in its evolution. Taxation is a complex subject, and one on which there is no perfect consensus of opinion. Though in practice it compels the attention of every one in some degree, yet its principles are by no means universally understood; familiarity with the concrete facts does not impart principles of method, while the trouble of acquiring them is a barrier to many. One reason perhaps is that the subject has for the most part been discussed in general treatises on economics, or, when separately treated, has been handled with much elaboration and detail, so that few except economic students have followed up its intricacies and subtleties; the average citizen with little leisure has small acquaintance with the more learned and exhaustive analyses.

There is room, and indeed need, for a brief and logical statement of the bases of taxation and an exposition of the incidence of the tax system of this country. No topic has occupied more of public attention in recent

years, nor is any likely to exercise a greater influence on the immediate future of the nation in its application. It is desirable in the highest degree that all citizens should be able to think out the economic consequences of taxation for themselves; to this end some assistance, analytic and historic, is necessary. To satisfy the need in a succinct form is the aim of this book; it offers no new theories, but seeks to aid clear perception in a difficult and somewhat controversial field of enquiry. The task necessarily implies considerable condensation. It is hoped that the work will be found helpful, and that it may induce many readers to prosecute the enquiry in the larger classical writings on taxation, a list of which is supplied in the short bibliography at the end of the volume.

In this edition the text has been revised so as to incorporate all important changes effected by recent legislation, including financial and statistical alterations, up to 1918. The changes in taxation, public debt and general finance, created by the War, are so exceptional that it is not desirable here to discuss them in detail until a position of greater stability has been attained. However, important additions to taxation and to debt, as results of the War, are noted in the Appendix, pp. 199-200, for information. It would be foreign to the object of this volume to attempt to do more.

G. A.-S.

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CHAPTER I

THE GROUNDS AND NATURE OF PUBLIC EXPENDITURE

TAXES are a portion of private wealth, exacted from individuals by the State for the purpose of meeting the expenditure essential to carrying out the functions of government. Taxation in some form is an invariable attribute of an organised political society, and, under whatever name it exists, it becomes sooner or later the principal means of raising revenue for public purposes; it is thus the correlative to the services which government performs for the community. Acting under a natural impulse men organise themselves into political societies for common safety and to secure the advantages which arise from combination; only by such union is the development of human powers possible or progress in civilisation attainable. All organisation implies administration, and this involves expenditure which must be met by public income.

Economic separation of functions tends to increase with the complexity of society, and the more advanced the organisation, the more numerous become the duties

of government, the more elaborate and costly its machinery, and the larger the common fund requisite to meet expenditure incurred for the common good.

The investigation into the nature and principles of State expenditure and State revenue is called Public Finance—a science which involves considerations of both a political and an economic character. As in all other cases of organised knowledge empirical methods preceded theory, so societies had reached a fairly advanced stage before a science of finance arose, and in practice public finance took many forms before principles were formulated or even sought out; the fiscal needs of earlier times were met by measures of a more or less arbitrary kind determined by the form of government, the degree of knowledge, and the nature of the local circumstances; only gradually and in the more progressive countries under settled government have systematised ideas as to principles of finance gained general acceptance. Modern highly developed communities profess to seek for guidance in matters relating to public expenditure from maxims of a scientific character, and to regulate their taxation in conformity with principles which are recognised as working out beneficially in the circumstances that govern their economic and political existence.

In England, from the sixteenth century, economic enquiry began to take scientific form, but rather as a series of problems of trade, currency, and finance, than an investigation into production and distribution. Towards the end of the eighteenth century, Adam Smith gave organic structure to economics as "an enquiry into the causes and nature of the wealth of nations, including an enquiry into the sources

of revenue of the sovereign or commonwealth"; a considerable section of this classic treatise is thus concerned with taxation and its effects. It is only, however, in recent times that the systematised study of finance has come into prominence. Professor Bastable's "Public Finance," published in 1892, was the first exhaustive attempt in England to treat the subject as a specific science, although in Germany much labour had already been devoted to the enquiry.

The present aim is to give an outline of the British system of taxation with an examination of the principles on which it is based, and to describe the general incidence and economic results of the various forms of taxation. A preliminary survey of the nature of the public expenditure which constitutes the demand for public revenue will form an appropriate introduction to this undertaking.

It has been held, and from one point of view the doctrine is valid, that State expenditure should be determined in amount by State revenue, just as the income of a private individual should dictate the scale of his consumption; in national affairs, however, this process is generally reversed, and State income is largely determined by considerations as to necessary outlay; measures involving public expenditure are often urgent, and are accepted as needful and unavoidable, and to meet these revenue has to be found. Recourse in such circumstances is sometimes made to loans—a method open to abuse, and now adopted so frequently, especially in local affairs, as to afford ground for serious consideration; for debt implies merely deferred taxation with interest. In national affairs the power to spend and the need for spending have to be considered

together; they interact, and thus mutually determine the actual expenditure for which revenue must be provided.

Taxes are contributions from the national dividend; they must ultimately come out of the annual earnings of the nation. The private income of a nation is the index of the capacity of the people to pay taxes, since it is the real source of public revenue. Labour and wealth employed productively by individuals create a fund which can be drawn upon; hence, as Adam Smith urged, the importance of measures which remove restraints on production, and which tend to stimulate the enterprise of a people.

Public expenditure can be roughly classed under two heads, *imperial* and *local*; the first concerns the community as a whole, the second relates to matters which have a special local interest; the army and navy illustrate the former, sanitation and street lighting the latter. Many matters, however, have both an imperial and a local significance, and in these cases a judicious combination of central and local control is desirable; the British poor law and elementary education illustrate this blending of national and local interests. The State contributes largely to public education; local rates are also called upon for the same purpose, and to local authorities have been delegated the duties of enforcing and administering the Education Acts. Poor law relief, which was originally under local control, has, since 1834, been regulated by the Government, but the administration is local, and the expenditure is governed by local circumstances, and falls mainly upon local rates, though the Government also makes contributions from imperial taxation towards the expense.

During the growth and consolidation of the nation, two tendencies have been evolved as regards the functions of government, one making for centralisation, and the other for devolution. The former has tended to unification, simplicity, homogeneity of management, and economy; it has superseded diversity of authority and also of method in cases where unity was desirable. The other has made for the delegation of administration to local authorities where local interests were mainly concerned. Local government is in the latter case deemed the more efficient, since it can fully avail itself of local knowledge and supervision, and can better deal with special local circumstances and wants, such as arise from a diversity of industrial and commercial conditions in which elasticity of method is desirable. Further, local government is educative; it fosters interest and calls forth local sentiment; it can utilise the detailed knowledge and the administrative capacity of a larger number of the community, and it enlists the sympathy and activity of many who are able and willing to give their service and knowledge locally, but who would find no scope for their public zeal and social sentiment under a system of centralised administration. The State in such cases retains some control over the local authorities, and can restrain their action, *e.g.*, in the sanctioning of loans for local expenditure; it also forms a court of appeal against extravagance or any abuse of power on the part of local authorities.

On the threshold of the subject two fundamental problems present themselves, as regards both imperial and local expenditure: (1) what are the *proper subjects* for such expenditure; (2) what are the *methods* by

which funds are to be obtained, and, as a corollary to these, on what principles should taxation be based.

The proper scope of State action is one of the standing problems of political philosophy. Historically the functions of the State have in practice fluctuated between two extremes, and their exact limits remain still indeterminate. The one extreme view (socialistic) would comprise the whole domain of economic action; the other, commonly called *laisser faire*, would confine the influence of government to the narrowest limits possible. The normal tendency in advanced countries has been towards free contract, but with many State limitations and regulations.

For centuries in England the sovereign power exercised over the individual a customary control which savoured of bondage in social and economic affairs; service and taxation had something of an arbitrary character; labour, industry, and trade were fettered by numerous restraints, and political freedom for the many had scarcely any existence. At length by sharp conflicts political freedom was acquired, and personal and economic liberty gradually followed. The rights of free contract, voluntary combination, and free-trading were, however, slow in attainment.

In the seventeenth century the idea of State direction and regulation was a leading principle in commerce, and it was embodied in what is now known as the mercantile system. A reaction took place in the eighteenth century under the teaching of the Physiocrats, and especially through the influence of the doctrine of "natural liberty" then advocated and applied to economic considerations. Adam Smith, the champion of economic freedom in Great Britain, however, rather

attacked definite injurious restraints on economic liberty than advocated a thorough *laisser faire* system. He sets forth the politico-economic duties of government as threefold: (1) "the protection of society from the violence and invasion of other independent societies"; (2) "the protection as far as possible of every member of society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice;" (3) "the duty of erecting and maintaining those public institutions and those public works which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature that the profit could never repay the expense to any individual or small number of individuals."

More recent classifications are little more than refinements upon and restatements of that of Adam Smith. For example, J. S. Mill divided the functions of government into "necessary" and "optional." The first comprised security of life and property and defence against both foreign and domestic enemies, which practically coincide with the first two duties set forth by Adam Smith. The boundary of the optional field Mill admitted to be very elastic and undefined, and to be determined in different circumstances by the principle of expediency; each case of State interference must be justified on its merits as a public benefit, and as the best means of obtaining some end deemed desirable for the community.

Later socialistic conceptions of the State led to the revival of the idea of paternal rule and a tendency to regard the State as the chief force in expanding and consolidating national life. The adoption of this

doctrine would obviously involve a very large increase in taxation. But the economic and industrial conditions of nations vary greatly; different circumstances and different stages of evolution call for various degrees of departure from the principle of non-interference, which may be adopted as the normal principle. This remark is illustrated by the contrast between British rule in Great Britain and in India; many duties must be undertaken by the ruling power in India, which are accomplished by voluntary enterprise in Great Britain. Similar deviations from the principle of free enterprise are observable under different civilisations, and under the diverse forms of distribution of political power in various countries. Among barbarous nations there is little organisation or combination, and no system of taxation except in the form of obedience and service to the chief. Under feudal government the various grades of society were bound together by a system of land tenure in which military service, labour dues or customary payments, were exacted from all classes in some form. In course of time with economic development service was commuted to money payment, and by degrees taxation in some more or less arbitrary form appeared; it was long, however, before it was reduced to definite principles and methods.

In the Middle Ages much public expenditure was incurred for purposes of war and religion: these called for both personal service and contributions of wealth. As commerce, trade, and industry increased, greater prominence was given to the economic aspects of society; problems relating to the functions and limits of State control and direction became more numerous; and while old restraints were being removed, new forms

of State intervention were called into existence. Thus, *e.g.*, Combination Acts were repealed, while Factory, Mines, and Workshops Acts were passed.

The utilitarian view of expediency as the decisive test of government regulation seems to permit the indefinite application of State intervention, provided it can be shown that the general welfare can only thus be best attained; the onus of proof, however, rests always with the advocates of new modes of interference, which require additional expenditure and make a demand for further taxation. Scientific knowledge, which has extended human powers over nature, has increased the variety of operations and products, and has created elaborate industries employing complex machinery. This evolution has necessitated fresh regulations by the State, in order to prevent injury to workers who are liable to suffer under the new industrial system. It has also become necessary for the State to protect the public against abuses of power by special interests and monopolies. Increased public expenditure is a result; this is exemplified in national outlay on police, education, regulations touching trade, railways, and shipping, and inspection of many kinds, both national and municipal.

The determining principle in the case of both imperial and local expenditure is admittedly the supply of some service necessary or desirable, and able to be more efficiently provided by public action than by private enterprise. While there is scope for much elasticity in the application of this principle, in determining the field of its activities it is important that government, whether local or imperial, should not restrain that individual freedom, which by fostering energy,

enterprise, and invention, becomes the prime factor in all progress. On the other hand, since progress depends also upon safety and knowledge, the State should secure that these conditions of national development are provided.

Some kinds of public expenditure are called unremunerative or non-productive, because they do not yield any apparent addition to material wealth; such expenditure may, however, be unavoidable, as in the examples of military defence and police, which are rendered necessary by the jealousies of other nations and the conditions of morality at home. The standing armies of Europe alone cost vast sums annually, apart from the indirect losses to industry arising from the withdrawal of able-bodied men from industrial employment. Viewed from the economic standpoint only, this expenditure would not be regarded as productive. Other expenditure is called productive or beneficial, because it returns interest on capital, or affords some very obvious economic service; such expenditure may be regarded as capital sunk in the common interest, and is exemplified by outlay on roads, harbours, docks, and waterworks. In these undertakings there is a tangible or visible result, something which supplies a definite economic good, or which yields a revenue. The term productive is, however, incapable of clear definition on these lines; some expenditure is less obviously productive in its immediate results, but is not less economic in its ultimate effects; such is the expenditure upon public education, which may increase the productive power of a nation in an incalculable degree. Again, a war of defence may be necessary to preserve the very existence of an industrial people; its results

are an asset incapable of economic valuation, the service cannot be weighed against the cost. Much economic loss arises from defects in human nature; these must be reckoned among the data of the problem, and they render employments such as those of the army, navy, and police, necessary.

It may be urged that some economic advantages are gained by military training, and it is admitted that the virtues of patriotism, courage, self-sacrifice are called forth by war; but the net economic outcome of militarism is waste, and those same virtues can be promoted and displayed in other circumstances. As regards the inventive power said to be stimulated by war, the same originality of genius could find a vent and more valuable employment in peaceful pursuits which add to production, remove pain, ease labour, and promote comfort. To the immediate taxation for war and preparation for defence must be added the debts incurred, which become a permanent burden on the industry of the nation. The conclusion is that while some degree of naval and military expenditure is inevitable in the existing relations of nations owing to inherent defects in the character of men, it is to be deplored that this kind of expenditure tends to grow with accelerating pace and to absorb an ever increasing proportion of national revenue.[1]

Public expenditure is not restrained by the forces which control private expenditure; the degree of

[1] The military defences of the great powers of Europe on a peace basis cost those nations more than £300,000,000 a year, and this is enormously increased by periodic outbreaks of war. Further increase of expenditure upon military or naval equipment by one power invariably evokes rivalry among others.

taxation is limited only by the estimate of its necessity and the capacity and willingness of the people to bear it. The Government must consider the effect of taxation upon the industry of the people and on their power to pay. Anything which encroaches upon these unduly inflicts a double injury, inasmuch as it reduces the standard of living and threatens to sap the economic forces of the nation.

Public expenditure, both national and local, is liable to sundry defects; in some cases the influence of private individuals procures outlay upon measures which are unproductive and do not really tend to public advantage; also the motives to economy in administration are not so urgent as in a private business, for those who direct public expenditure do not feel the same responsibility as those who are dealing with their own capital, since they do not personally suffer the penalties of waste; tax-payers cannot select all their employees or secure their full efficiency, nor can they readily change their methods of expenditure when these are established, or effectively control the machinery when once it is set up. State production has also a tendency to check private enterprise; it weakens competition, establishes routine systems, and discourages the introduction of new and more economic methods. The invigorating stimulus of competition and personal interest seems to be essential for progress.

Private enterprise seeks to increase wealth as a source of profit, and its expenditure is regulated by its income. In the case of the State the revenue demand is fixed by the amount of expenditure determined upon in advance, and thus arise opportunities for extravagance; taxation may be called

upon to meet the outlay upon projects which are the fads of a party temporarily in office, or for the gratification of a popular sentiment which has not counted the ultimate cost of its demands. Taxation always reduces the spending power of the tax-payer by the amount he contributes to the State; although expended by the Government in employing labour in the performance of some necessary duty, it yet reduces the consumption of commodities by those from whom the tax is taken, and to that extent their power of creating a demand for labour is contracted. In deciding upon any extension of the functions of government it is necessary to balance the advantages of increased efficiency to be gained thereby against the effect of increased taxation upon the community.

It will be seen that by far the largest portion of public expenditure is occasioned by the necessity for national defence, and by those lawless propensities which entail an elaborate system for securing civil and criminal justice. Public outlay for these purposes is generally admitted to be unavoidable.

The maintenance of justice is an obvious duty of government; it is included under Adam Smith's second class of public duties, its object being security of life and property at home. It involves a costly legal machinery to secure the rights of individuals, including expenditure on law courts, police, prisons, etc. Such expenditure grows as the community expands its ideas concerning the duty of advancing humanitarian aims. Only a small portion of this outlay is recovered from offenders against the law: practically the whole cost of criminal legislation and most of the cost of other legal machinery fall upon the community.

Certain legal services are paid for in fees by those who benefit thereby, as in the case of patents; also deeds and documents of various kinds are rendered legal by the stamp-duty or by the fees for public registration, but these affect only a very small section of legal expenditure.

Security of property is essential to prosperity; its absence is most adverse to wealth-production, and thus taxation incurred in maintaining justice must be regarded as a price paid by a community to enable it to pursue its avocations with safety, and as a means of calling into existence a larger body of wealth than would be created in its absence. Similarly the expenditure upon persons with criminal propensities is inevitable; we must either suffer from their predatory tendencies, or pay the cost of secluding them, and of aiming by methods of discipline at their reformation and the diminution of their class.

The relief of the poor has been recognised as a State duty from the period of the decline of the monastic system; its provision was found ineffective unless under organised public control, and it was made legal by the Poor Law Act of 1601. Experience has proved that some methods of relieving poverty only increase the evil; and while the principle has been adopted that the indigent, helpless, orphaned, and insane cannot be allowed to perish from want, the problem of their support is one which can be solved only by some form of public provision. The neglect of this duty would be both a public scandal and a social danger, hence it becomes necessary for the State to devise methods of a general character to provide some kind of public relief; the exercise of private charity is not thereby

superseded, and there is scope for wise co-ordination that both systems of aid may work in harmony, so as to secure the maximum of good to the community. To provide relief for the needy without encouraging idleness, to help without pauperising and without unduly burdening the industrious, are aims as yet imperfectly realised by State activity in this direction. This recognised public duty is, however, a source of heavy taxation. It is carried out by the joint action of central and local administration; the central government initiates, regulates, and inspects; the several localities levy the rates and administer the system; the object is to secure efficiency and also elasticity of method by adaptation to local conditions.

Education, formerly left to the voluntary action of the benevolent and religious instincts, has during the nineteenth century come to be regarded as a national duty. Great Britain expended upon Public education, in 1914, £19,809,430 from imperial revenue, and from local taxation £28,069,982. The outlay is justified morally by its deterrent action upon vice and crime, economically by enhancing the productive power of the nation, which depends upon its knowledge, skill, and capacity. To secure this efficiency, compulsory attendance at school is necessary up to some point; compulsion entailed public aid, and this led to free primary education. The economic argument for public expenditure upon secondary and technical education, research work, museums, art galleries, libraries, etc., rests on the same principle of public utility; its tendency is to yield results profitable to the nation far beyond the cost, if only wisely directed. Such outlay is regarded as capital sunk for the future progress of

the nation, and must be classed as a productive investment. Private munificence in the form of endowments is beneficial, but it is very inadequate in amount. Education is a matter of public concern; both the amount which should be expended upon it by the nation, and the best methods of expenditure are still matters of controversy; in any case judicious expenditure on education is profitable to the public, but it makes a heavy demand upon both the imperial revenue and the local rates. A further argument for public educational expenditure is based on moral grounds, and is analogous to that which is a main support of poor-law relief, viz., that it is unjust that those whom the accident of birth has placed in less advantageous conditions should suffer from the want of that equipment which can give them reasonable opportunities of happiness; in other words, it is contended that there should be approximate equality of opportunity.

Other forms of public expenditure included in the optional group fall under Adam Smith's third category of works of public advantage,—lighthouses, harbours, roads, bridges, and in some cases railways, telegraphs, and the various means of transport and communication vital to economic well-being. These are classed as optional measures, because it is uncertain whether they would be adequately supplied by voluntary effort, or to what extent public expenditure is necessary, and what form it should take. Where capital and energy are abundant, railways and other means of transport may be best supplied by private enterprise, the State controlling its direction, and retaining supervision over its methods in the interests of public safety. In other cases, where the economic resources of the

country are undeveloped, the State creates a great utility by providing the means of communication and transit. India, the British Colonies, and other countries have demonstrated the remunerative character of this kind of public expenditure. There is, however, always a danger of extravagance and misdirected expenditure in these undertakings; localities which will derive benefit thereby are apt to take exaggerated views of the public advantage to be gained, and to press their claims for the outlay with little moderation when the risks of loss are assumed by the public exchequer.

Many other services are performed by the State for purposes of general utility and convenience. Registration of births, deaths, marriages, contracts, wills, etc., the collection of statistics of population, trade, industry, health, etc., the control of the coinage and currency, the fixing of standards of weights and measurement, are examples of services, some of which would either not be performed at all, or would be carried out with less efficiency if left to individual action. As will be seen later, direct aids to specific industries by protective tariffs, bounties, and subsidies, which have been, and are still widely regarded as within the sphere of State activity, are to be condemned, since their effect is to yield profit only to a favoured few at much expense and loss to the community, while restricting that healthy competition which makes for progress and efficiency.

The field for public action is thus seen to be extensive and capable of indefinite expansion. Its limits are entirely determined by expediency; no absolute criterion can be laid down, except that evidence and argument shall in each case demonstrate advantage to the public interest, and that the common gain is worth the cost; and if it be decided that a new public departure is

desirable, an experiment should first be made on a small scale whenever that is possible. Certain guiding general principles can be stated: — public action should not tend in any degree to stifle private enterprise whenever this would be effective; the State should not enter upon undertakings of a speculative nature; in cases involving large outlay adequate proof of the need and benefit of such expenditure should be forthcoming; the project should not benefit one class at the expense of others, but the economic advantage to society as a whole should be distinctly proved; and all State undertakings should be of such a kind as to be open to public observation and criticism, both in their financial effects and in their operations.

In Great Britain the National Expenditure comes up for review by Parliament annually in "The Budget," or national balance sheet. This is the statement submitted by the Chancellor of the Exchequer as Finance Minister, and as the mouthpiece of the Cabinet, which is collectively responsible for the Budget. He first renders an account of the past year's income and expenditure, and then submits an estimate of the proposed expenditure for the coming year, and also the measures proposed for "the supply" of revenue. The expenditure falls under two heads: (1) *Consolidated Fund Charges*, which are the more permanent charges authorised by Parliament to be paid without annual renewal of Parliamentary authority. These charges consist of interest, annuities, and the sinking fund of the public debt, the Civil list, expenses of Courts of Justice, etc., and special pensions. (2) *Supply Charges*. These are voted annually, and consist of the expense of the Civil Services and collection of revenue, and the cost of defence (army and navy, etc.) and education. For the preparation of the

Budget the Treasury receives detailed estimates from the various government departments. Much skill and experience are required to forecast the revenue of the coming year; the estimates must not be over-sanguine, nor must the possible expenditure be under-rated. As a rule, great accuracy is attained owing to the cumulative experience of the permanent financial officials.

It is a salutary principle of the British Constitution that all proposals for expenditure must come from the Ministry. The House of Lords does not deal with financial questions; after criticism by the House of Commons in Committee the expenditure and proposed taxation are determined by votes of the House. Since the lower House only can introduce money-bills the people are said to vote their own taxes. The sums voted are appropriated to definite expenditure, as set forth in the estimates, and cannot be applied to other purposes. An elaborate system of administrative control precludes any risk of misappropriation. The revenues as they are collected are deposited at the Bank of England, which is the banker to the State. Payments are made by the Bank only in accordance with an Act of Parliament, and by orders from the Comptroller-General and the Treasury. All accounts are audited by a special government department, called the Exchequer and Audit Department, and finally a report is made to the Parliamentary Committee of Public Accounts. Thus the authority for expenditure and taxation emanates from Parliament, and the detailed statement of the accounts of the nation is rendered to Parliament after the close of the financial year. A system similar in principle, though differing greatly in detail, obtains in other countries.

The following Tables, taken from the Finance

Accounts, 1913-14, give a summary of the gross national Revenue and Expenditure for that year.

UNITED KINGDOM.

REVENUE.

TAX REVENUE :—

Customs . .	£35,450,000	0	0
Excise . .	39,590,000	0	0
Estate Duties, etc.	27,359,000	0	0
Stamps . .	9,966,000	0	0
Land Tax . .	700,000	0	0
House Duty .	2,000,000	0	0
Property and Income Tax . .	47,249,000	0	0
Land Value Duties	715,000	0	0
TOTAL	£163,029,000	0	0

NON-TAX REVENUE :—

Post Office } Telegraphs } . .	£30,800,000	0	0
Crown Lands . .	530,000	0	0
Suez Canal Dividends	1,579,972	9	7
Miscellaneous . .	2,303,924	14	5
TOTAL .	£35,213,897	4	0

TOTAL REVENUE . £198,242,897 4 0

EXPENDITURE.

CONSOLIDATED FUND SERVICES :—

1. National Debt Services—			
(a) Funded Debt (Interest) .	£14,787,108	16	2
Funded Debt (Terminable Annuities) .	3,202,026	12	5
(b) Unfunded Debt (Interest) .	1,115,849	18	7
(c) Management of the Debt . .	166,529	19	9
(d) New Sinking Fund . .	5,228,484	13	1
	£24,500,000	0	0
2. Road Improvement Fund .	£1,394,951	0	0
3. Payments to Local Taxation Accounts	9,734,127	10	6
4. Other Consolidated Fund Services— Civil List . . Annuities and Pensions . . Salaries and Allowances . Courts of Justice and Miscellaneous Services .	1,693,890	6	10
	£12,822,968	17	4

SUPPLY SERVICES :—

5. Army Services .	£28,331,000	0	0
Ordnance Factories	15,000	0	0
Navy Services .	48,833,000	0	
Civil Services .	53,901,000	0	
6. Customs and Excise	2,431,000	0	
Inland Revenue .	2,052,000	0	
Post Office Services	24,607,000	0	
	£160,170,000	0	

TOTAL EXPENDITURE £197,492,968 17 4

CHAPTER II

SOURCES OF IMPERIAL REVENUE, AND THEORIES OF TAXATION

In primitive times the revenue of the sovereign was derived almost entirely from land, which was then the chief source of wealth. From the Norman Conquest to the middle of the sixteenth century the royal demesne, customs duties, and various direct taxes —aids, benevolences, poll-taxes, etc., were the chief sources of revenue. But the hereditary estate of the Crown was much wasted by extravagance and gifts of the rulers, especially under Henry VIII. and his son; and at a later period with the growth of popular rule, what remained passed under the administration of the State. In Great Britain State property has long ceased to provide any significant proportion of public revenue. But land and natural resources are still an important source of revenue in some countries; *e.g.*, Austria and Russia possess extensive public lands. In England, the United States, and the British Colonies most land has passed into private ownership, and only as a taxable form of wealth does it supply revenue. The alienation of public land was advocated by Adam Smith and J. S. Mill on economic grounds; they held that the public

administration of land was costly, and that private ownership led to more rapid development through the motive of personal interest, and they maintained that the prosperity thus created would yield a larger source of public revenue than State ownership. It may be noted that this doctrine is illustrated in the practice of the self-governing colonies, and that Canada in particular has attracted emigrants and gained development by the offer of free grants of land to settlers.

In India three-eighths of the net revenue is derived from the land. But the circumstances of India are peculiar, inasmuch as the sovereign authority from time immemorial has claimed a share in the produce of the soil. The Government owns and administers the land, letting it at a moderate rent, which is popularly, but loosely, denominated a land-tax.

In some countries *forests*, *mines*, and other *natural products* yield a revenue to the State; some of these resources tend, however, to become exhausted in time, and are encroached upon with the growth of population. Germany still obtains a large revenue from forests, as also does British India; and the island of Formosa gives Japan a revenue derived from the government monopoly of a natural product, the camphor tree. In many countries the government controls certain industries for the purposes of revenue. The very considerable tobacco industry in France is an example of a State monopoly maintained for revenue. The system, though it produces a revenue to the State, cannot be considered economic; it is generally held that the State manufactured article is inferior to that which is produced under free enterprise, and the industry is open to all the defects that were mentioned

as incidental to government production. In India the British Government formerly possessed a somewhat exceptional monopoly of the opium trade, from which it raised a large revenue. On moral grounds the trade was discouraged in 1907 and ceased altogether in 1915. The Prussian Government owns and conducts its railways at a profit, though the motive in this case is not purely financial. In Great Britain the only State monopoly yielding income is the Post Office, including telegraphs and telephones, from which a net revenue of about £8,000,000 is obtained.

The gross national revenue of the United Kingdom (excluding that raised for local purposes) amounted for the year 1913-14 to £197,492,968. Of this sum 83 per cent. was raised by taxation; £75,000,000 on commodities, £47,000,000 from income and property tax, £27,000,000 from realised wealth passing at death, £9,900,000 from duties on transactions, and £2,000,000 from taxes on occupied houses and business premises.

The British fiscal system is the outcome of a long evolutionary process, during which taxation has become almost the only source of revenue: many earlier methods of raising revenue have become unremunerative, and some have lapsed because unsuitable to the political ideas and aims of a self-governing people. The control and administration of public finance are now among the most important functions of the House of Commons. Taxation no longer takes the form of a customary service or an arbitrary exaction by a superior authority, but is determined by popular will and sentiment, and it professes to conform to certain principles of justice and productiveness. It is compulsory in that it exacts

contributions from private income for public purposes. The legislature determines its nature and amount, provides the machinery for its collection, and enforces the payment. The system has been evolved gradually under the influence of political and economic ideas. The aim is to secure that all citizens contribute in proportion to their means, with no undue pressure. From the nature of the circumstances many inequalities must arise; neither absolute equity nor perfect economic working can be assured, and the problem of the best system will remain an abstract question so long as societies and conditions are liable to change.

Self-taxation by voluntary subscription has been put forth as the ideal system. Utopian as this notion is, something of the kind formerly existed in several small city states; Hamburg, Zurich, and Basle at one period derived most of their revenue from the voluntary self-assessment of their citizens. Its success rested on a species of republican patriotism, much to be admired, which found scope, however, in a very limited area, and was of a civic rather than a national character. It is to be feared that this system, still occasionally advocated, would form a very doubtful source of State revenue, and would yield a very unreliable budget in the circumstances of any modern State.

A theory of taxation, at one time prevalent, held that taxes were the equivalent given by citizens for the benefits they derived individually from the State. This doctrine, sometimes spoken of as the "Social Dividend" or "*Quid pro quo*" theory, does not offer a satisfactory basis for imperial taxation. The idea probably arose in those early times when personal service was exacted from every tenant by his over-lord. With commutation

of service, the notion became associated with money-payments. In course of time the sovereign came to be regarded as the source of authority and right, and to be entitled to taxes for the protection and security conferred under his rule; privileges and monopolies, derived from the same source, confirmed the impression; and down to comparatively recent times, the payment of taxes was interpreted as a payment, more or less just, for personal advantages conferred by the government.

In his "Esprit des Lois" Montesquieu lays down the doctrine that "the revenues of the State consist of the portions which each citizen gives of his fortune, in order to enjoy securely the rest." This view apparently gives expression to the *quid pro quo* theory of taxation. The doctrine, however, seems to ignore the most important and really fundamental advantages which follow upon the evolution of a society, viz., the unity and solidarity of its co-operative organisation; and it overlooks the fact that the services of the State are wholly incapable of exact measurement and apportionment to individuals. If the State merely offered to each individual security of life and property in exchange for taxes, the weak as requiring greater protection should pay more than the strong, and those most able to pay might contribute least. Obviously this view will not bear criticism; contribution to public expenditure is not a purchase or exchange, but a response to a national demand on account of a common good; its *raison d'être* is that it confers collective advantages which cannot be stated in quantitative terms, and which are not meted out to individuals; the benefit arising from the solidarity society is incalculable, the expenditure is general,

and the revenue is a joint necessity which must be subscribed to by individual citizens, not for their share as such, but for collective benefits derived from their common existence as a State. Only a very small part of public revenue—postal and telegraph charges, and some fees in the Courts of Justice, etc.—is an equivalent for special services. Public wants and common benefits are the grounds of taxation; whence it follows that no class should be exempted from taxation; all derive some advantages from the commonwealth, and all should share in both the duties and responsibilities of citizenship, according to their capacity.

Adam Smith and Ricardo discussed the incidence of taxes as falling upon wages, profits, and rent. Since these constitute the national dividend, and are the only elements in income, a tax on income must fall upon one or other of them; but the enquiry, though valuable for disclosing the effects of special taxation on these forms of income, does not afford a valuable classification of taxes. Many incomes, moreover, are composed partly of wages and partly of profits or rent; indeed, economic analysis shows that in most incomes from skill, the three are inseparably intermingled; rent of ability and interest on capital, sunk either in the individual or in his instruments, are included in the reward of skilled labour. In the expenditure upon taxed tea, tobacco, or wine of a professional man, it would be impossible to say whether the duty fell upon wages, profits, or rent; it is sufficient that it is paid out of his total income.

Taxation is sometimes represented as "a good investment, and one that returns interest to the community." This statement cannot be accepted simply as a general

truth; it requires careful interpretation, otherwise it might constitute a dangerous encouragement to extravagance, and lead to a ruinous degree of taxation. The condition of Egypt under Ismail Pasha, and that of Great Britain in the early part of the nineteenth century, notwithstanding the counteracting influences of the new industrial developments, afford startling evidence of the disastrous effects of excessive taxation.[1] All taxes are deductions from the spending power of individuals, and therefore from their demand for products of industry; they thus diminish voluntary consumption and production. Since taxation does not create wealth but only diverts it into the hands of government, it cannot be justified except by its expediency, and it is only a good investment when its objects are clearly beneficial to the community, and when the taxes are raised by methods which are just and economic. Burdensome and unjust taxation reduces the productive capacity of a nation, and can only tend to its exhaustion. A nation does not become prosperous in proportion to the amount of its taxation, but it is able to bear heavy taxation with less suffering when it is prosperous and wealthy. The drain of the South African War upon British finances is an example of this fact; and the comparative ease with which this burden has been borne is strong testimony to the previous prosperity of the country.

It has been urged that an increase of taxation may

[1] Jevons, "The Match Tax." We may start with the concession that every tax is bad, but as we must have revenue, the question really takes the form whether one tax is bad compared with others existing or proposed.

lead to a larger production of wealth by stimulating industry and calling forth additional effort; thus increased thrift and toil, it is argued, will create a new store of wealth which will compensate the tax-payers for the amount extracted by taxation. This contention has a very partial application, and, indeed, is somewhat sophistical; it is more probable that the tendency would be to crush enterprise, to paralyse effort, and to reduce consumption. Hopefulness and the prospect of the assured enjoyment of the fruits of industry form a stronger stimulus to effort than augmented taxation, and it is only in so far as it extends these favourable conditions that taxation can be an incentive to industry.

The leading maxim of taxation in Great Britain during the last 70 years has been that "taxes should be imposed for revenue only." Taxation, however, is often advocated as an instrument for other purposes, and especially for the protection and fostering of native industries. Here the avowed object is the imposition of duties upon imports, not for the purpose of realising a revenue from the admission of the foreign articles, but with the aim of excluding them from the country and thereby giving a preference to home products, which are at some economic disadvantage —greater cost of production or inferior quality—in comparison with the foreign article. The economic results of this system, which is widely prevalent in foreign countries, are that the industries protected by the tariff are maintained only by the exclusion of foreign competition, and the loss involved in the higher cost of production falls upon consumers in the form of higher prices; there is also a corresponding diminution in the production of other goods, articles

of export, which in the absence of a tariff would have been produced as a means of purchasing from abroad the goods excluded under the tariff. One trade is encouraged, in fact, at the expense of others; there is a diversion of industry resulting in economic loss. The taxation takes the form of more expensive commodities, and yields little or nothing to the State. It is a contradiction in terms to say that a tax can be both protective and revenue-yielding; in so far as it does the one it excludes the other.

This system of taxation was practically abolished in Great Britain after the Repeal of the Corn Laws in 1846, though it was not entirely eliminated from the British system until 1860. Strong attempts have recently been made to re-establish protective taxation on various grounds, not, however, wholly consistent with one another. For example, it is proposed (1) to give a preference to colonial products by imposing heavy duties on foreign produce, with the object of diverting our foreign trade to the Colonies, and ultimately securing a self-sufficing British Empire. It is also proposed (2) to exclude foreign products by means of a tariff in order to encourage home industries. And, again, it is proposed (3) to place retaliatory duties upon imports from other countries in order to compel those nations to reduce their tariffs on British goods, and thus increase British trade with those countries. These arguments may severally appeal to different classes, but it is logically impossible for all three objects to be attained by any system of tariffs, while it is equally certain that the re-imposition of protective duties would be the cause of great economic loss to Great Britain.

Governments have often attempted by means of "Sumptuary Laws" to regulate consumption, and to place a check upon extravagance and luxurious expenditure, which were thought to threaten the physical stamina of the nation or to weaken its moral fibre. *Taxation* of luxuries has also been advocated with a like moral aim. The drink duties receive much support on this ground, and many total abstainers would like to see these duties increased to such a degree as entirely to repress the drink traffic; they argue that the increase in wealth which would follow upon total abstinence, together with the reduction in the cost of the crime and pauperism which are the consequences of drink, would more than compensate for the loss of revenue at present obtained from the taxes upon drink. Social and moral purposes undoubtedly fill a large space among the causes of expenditure which determine taxation; both education and poor rates, and the outlay on prisons and reformatories exemplify this fact. But the employment of taxation as a deliberate instrument for the repression of a kind of consumption liable to abuse would introduce a principle capable of wide application, and one which would clash with the primary and essential object of taxation; at the same time, in the selection of commodities for taxation the secondary purpose may well be kept in view; *e.g.*, luxuries like beer and tobacco form fitter subjects for taxation than bread, which is a necessary of life.

Again, socialists seek to employ taxation as an instrument for modifying the existing social system, especially with the view of securing a more equal distribution of wealth, and they would impose heavy duties upon the wealthier classes so as to appropriate

the greater part of their wealth. The economic effect of such taxation would be, however, to destroy the incentives to industry and saving, and the growth of capital would suffer. The advocates of such measures forget that wealth is constantly being consumed and re-created, and that to impair the motives for its reproduction must check production and entail widespread poverty.

Accepting, then, the doctrine that the object of taxation is revenue only, we require some principles which should govern the method or imposition of taxation. The primary principle is that of equity, or political justice, which is embodied in Adam Smith's first rule that "every one should pay in proportion to his ability." A difficulty at once arises in the interpretation of the phrase "ability to pay," or of those terms, "power," "faculty," "equality of sacrifice," which have been used as its equivalents. When sacrifice meant military service or personal labour, this "equality," or contribution according to ability was more nearly attainable, for each then gave of his time, strength, and skill. Military conscription in modern times makes a somewhat similar demand—each citizen soldier gives service; but, apart from economic objections to conscription, all State demands cannot be met by military service; the needs of modern civilisation require revenue. The difficulty of imposing equal sacrifice is increased under the very complex organisation of modern industrial and commercial communities, since values and charges must be expressed in a common standard; "ability to pay" has therefore to be translated into terms of money, and taxation must be devised so as to fall on individuals according to their pecuniary

capacity. As will be seen later, equity, or social justice, can only be approximately secured, and it can be attained most nearly by a composite system of taxation which touches various interests directly or indirectly.

The explanation of modern systems of taxation must take account of their historic evolution; many parts of the British system can only be understood when they are seen to be the modern equivalents of earlier modes of taxation, which have been transformed by the altered conditions. At the same time, under the influence of guiding principles, new forms of taxation have taken a place as factors in an aggregate which on the whole approximates fairly to a realisation of the maxim of political justice. The recognition that modern taxation is the outcome of a gradual evolution, and that the existing systems in different countries are survivals of much older systems, modified by new circumstances, by economic knowledge, and by political ideas, serves to explain the diversity of systems in those countries.

The nature of the taxation adopted by a country affects it both economically and socially; and conversely the prevailing conditions and ideas—economic, social, and political—must largely determine the forms of taxation which a country will adopt.

Note.—A heavy duty imposed on spirits for revenue in 1909, reduced consumption and yield; it was then defended on the grounds that it tended to promote temperance.

From Taxation funds were provided to find work for the unemployed. The economic effect is a diversion of capital from private to public hands; employment by the former is probably thereby reduced to enable the latter to give employment in a manner much less efficient. The defence is in the urgency and necessity of the problem. A more economic solution may be found with the revision of the Poor Law.

CHAPTER III

PRINCIPLES OF TAXATION

A WELL-ORDERED system of taxation should satisfy certain fundamental tests—the principles of justice, productiveness, economy, and simplicity. It should distribute the burden fairly, each tax should yield revenue without waste or needless cost, and the system should be such that the contributors should know approximately what they are paying. Can this comprehensive aim be better attained by a single tax or by a multiple (composite) system, consisting of an aggregate of taxes? A single tax is chiefly recommended by its simplicity. It has been advocated in the form of an income-tax, and also (by those who have regarded land as the sole source of wealth) as a tax upon land.

The belief in the justice of a single tax upon land was very prevalent in France in the middle of the eighteenth century. The Physiocrats, the economists of the day, thought they had discovered in the *impôt unique* a method of taxation which had its warrant in sound economic principles. They assumed that agriculture in all cases yielded a *net produit* or surplus, which did not accrue in any other form of industry. As a corollary of their doctrine they held that all

taxation should fall upon the rent of land. They did not perceive that a large part of agricultural produce barely repays the cost of its production, and that the land from which it is obtained consequently yields no rent. Agricultural rent could not in modern conditions realise sufficient to be made the sole basis of taxation, and it could in no sense satisfy the canon of equity. Economic analysis has shown that rent is an element which arises in both profits and wages. Further, very large incomes are derived in modern times from commerce and manufactures, which a single tax on land would leave free, while the rent of agricultural land in many instances represents little beyond the interest on capital expended in rendering it productive and accessible. Rent, as explained by more recent investigation, is not the unique or simple agricultural phenomenon that the Physiocrats imagined. The single tax upon land, as advocated by Henry George and others, is not really a revenue system conforming to canons of taxation, but a scheme for land nationalisation through the appropriation of rents; it is therefore more properly discussed elsewhere in that connection.

Neither could the income-tax form a practical basis for raising revenue by a "single tax." It would be found impossible to reduce the idea to a working scheme; the poorer classes would not be able to meet the demands of such a direct tax at all, and to others the payment of the whole of their taxation in the form of a single direct tax would be most difficult, perhaps even impossible, while the attempt would lead to great annoyance, evasion, and probably resistance; the assumed simplicity of a single tax on incomes is very far from

a reality. Again, a single income-tax, if it could be adopted, would have no elasticity, and could not, like a group of taxes, be readily adapted to a change of circumstances; the tax would also by its very nature be obnoxious from its obtrusiveness, and no graduation or manipulation could render it equitable. In a complex and highly organised society, incomes are derived from many and various sources, and it is only by means of a composite system of taxation that different classes and various means of ability to pay can be reached, or that any approximation to equity can be secured.

Equally unscientific and uneconomic is the maxim of Arthur Young, advanced in opposition to the *impôt unique*, that "a good system of taxation is one that bears lightly on an infinite number of points, heavily on none." There is a suggestion of a species of dissipation of the tax or of unconsciousness of its burden in this theory which gives it acceptance; it is, however, very fallacious. Such a system must impose a variety of duties upon income, expenditure, property, means of communication and transfer, in fact, no kind of economic operation would be free; the result would be an elaborate and intricate system which would place numerous impediments on production and trade, and cause waste, uncertainty, and great inequality.[1] The elaborate scheme of taxation in Great Britain which prevailed from the beginning of the French war

[1] Jevons, "Principles of Economics." If we have *very few taxes* their pressure is sure to be uncertain and irregular. If we have a great number of small taxes, the interference with freedom, the complexity of legislation and the cost of collection become great compared with the revenue raised. The desideratum is a limited number of taxes, each of which will return a good round sum.

until nearly the middle of the nineteenth century, illustrates the effects of pressure at many points. The burden oppressed all classes, and especially the poorest consumers. A large part of the taxation was unproductive, while it was disastrous in its effects on production, and ruinous in its exactions from every necessary of life.

Sir George Cornewall Lewis formulated the maxim that "the aim of finance is to raise the largest sum of money with the least trouble." This maxim enforces the two cardinal points in taxation — productiveness and economy—but fails to supply the means for their application to practice. If the "trouble" relates only to the government, it may work out unjustly to the tax-payer; if it be considered with reference to the tax-payer, its economic effects upon the nation may be unsatisfactory. Guidance is required as to the method by which it shall be carried out. The maxim is too abstract, and not much more exact than the definition of the French Minister Colbert that "the art of taxation is the art of plucking the goose so as to get the largest possible amount of feathers with the least possible squealing."

The terms *direct* and *indirect* applied to taxes have reference to their ultimate incidence or burden.

Direct taxation implies that a tax is not shifted or transferred, but is levied at once upon the individual who is intended to bear the burden; the income-tax affords the most obvious illustration of direct taxation. The death duties, the land-tax, and licences for carriages, dogs, guns, and servants are other examples. Direct taxation is advocated as bringing effectively before the payers the burdensome character of taxation, thereby

helping them to understand their interest as citizens in the economic conduct of the State. But there are practical difficulties in the application of a system composed of direct taxes only; also the advantage of making the payer painfully aware of his burden is disputed by some, who hold that on the contrary it is desirable to make taxation as little obvious as possible in order to avoid discontent, resistance, and evasion.

Indirect taxes are duties on goods, or taxes on services and actions, which are shifted or passed on to others. Thus duties on imported or home-made commodities ultimately increase the cost of these articles to the consumers. Indirect taxes have the advantage of being less obtrusive, they are somewhat obscured in the mode of collection, and so evoke less opposition than direct taxes; they are also paid in small amounts, and are therefore less onerous. Indirect taxation can also be arranged to touch all classes by a judicious selection of commodities; further, the scheme, while avoiding prime necessaries, can be framed so as to impose duties upon popular luxuries; such taxes become in a certain sense optional, since any one may refrain from consuming a taxed luxury. The taxes on comforts and luxuries have also much elasticity, that is, they increase with general consumption in times of prosperity; also a slight modification in the rate can be made to meet an emergency when additional revenue is required. Any change in taxation produces some economic dislocation, but small alterations in the duties on spirits, beer, tea or tobacco, are more tolerable than new duties.

Various objections are raised against indirect taxation: (1) that it is not an easy matter for the govern-

ment to impose a new tax since the anticipated dislocation of trade always raises a protest; (2) that the collection of taxes on commodities is more expensive and difficult than direct taxation; (3) that it may inflict an inconvenience upon trade if the tax is levied during any stage of the production, while it also increases the cost to the consumer, since a tax paid in advance absorbs capital on which interest will be required. Mill notes as further drawbacks to indirect taxation, that the necessity for advancing large sums as taxes tends to restrict the business to large capitals and thus favours monopoly; and that it checks improvements in method if the tax is levied on a process or at some particular stage in the manufacture, since this mode of determining the amount of duty requires production to be conducted on a uniform system. These objections can be met in some degree (1) by restricting indirect taxation to a limited number of articles; (2) by meeting the varying demands for taxation by slight modifications of existing taxes, rather than by the imposition of new taxes; (3) by placing the duty only upon the finished article. Thus the beer duty now replaces the older tax on malt, and the system of bonding brings the payment of the tax as near as possible to the time of consumption, and prevents the necessity for advancing much capital in payment of taxes on imported articles.

One of the greatest defects of indirect taxes is the difficulty of tracing their full incidence; there are unexpected effects, and interests are touched adversely which were not contemplated, while subsidiary industries sometimes suffer an unintentional injustice. This objection applies both to new taxes and to

any considerable modifications of old taxes. Every new tax creates a disturbance; price and demand are affected; but after a sufficient period of time has elapsed, trade and industry adjust themselves to unavoidable conditions, the tax loses some of its burdensomeness, and prices and demand are accommodated to the new circumstances. Thus the continuance of an old-established tax which has obvious defects may be a less evil than the imposition of a new tax which would disturb existing relations, even though the proposed tax may conform more closely to economic theory; hence the maxim that "an old tax is no tax," or that "an old tax is better than a new one."

To every tax-system objections can be raised; the problem is to find the least objectionable and most effective system. A well-balanced system, combining direct and indirect taxation, comes nearest to realising this end, and equity is more attainable by this means; all classes may thus be made to contribute in the manner most convenient to them, and to do so more nearly in proportion to their ability; the pressure of taxation is distributed more evenly while it inflicts the minimum of disturbance on industry.

There is a growing tendency to regard the income-tax as the chief instrument for securing elasticity in the British system, since an additional penny on the income-tax is so easily imposed, and will yield about £2,500,000. But if it be assumed that elasticity in taxation is to be obtained by one tax only, that tax should have a wide incidence, and should, moreover, not be unduly burdensome in normal circumstances. At one time the income-tax was regarded as mainly a war-tax; it is now, however, relied upon as an

integral and very productive element of ordinary revenue; but it falls only upon a section of the community, and it is therefore not equitable that it should stand at a high rate in ordinary times, and also be treated as a financial reserve in time of war.

It is important in any system of finance that taxation should fall as nearly as possible upon income only, and that capital, which is a source of future wealth, should not be discouraged in its growth by taxation. It is a principle universally accepted by economists that taxation should give the minimum of interference with industry, enterprise, and production. The Death duties are a direct and graduated tax upon capital; their character and incidence are exceptional. Duties on Land Values, imposed in 1909, are a direct tax upon a special class of capital. As yet, they have proved expensive in collection and unproductive in yield. Taxation of articles of consumption appears to be a taxation of expenditure rather than income. This is so in the first place; since, however, normal expenditure is the disbursement of normal income, the taxes come out of annual income, except in those cases of extravagance where expenditure encroaches upon capital. Taxation on consumption is really a method of taxing some incomes or portions of income which it is undesirable or inconvenient to tax directly. Indirect taxation is only one way of getting at "ability to pay" out of income.

Taxes have been classified on various principles; one natural arrangement is upon wealth at its acquisition, wealth in possession, and wealth at consumption—*i.e.*, upon income, capital, and use. This method of grouping taxes is useful in tracing the

economic effects of taxation upon production, distribution, and consumption respectively; it does not, however, constitute a scientific classification; indeed, any exhaustive attempt at a classification of taxes must yield a cross-division, since the problem of taxation is a complex one, and involves many considerations. The principle of justice has to be satisfied, the practical end of revenue must be attained, and the economic effects upon production and distribution must always be kept in view. No scheme of taxation can offer a logical classification or secure absolute scientific precision in the application of these several principles.

Taxation is a practical problem, and not an enquiry into an ideally best system. As has been shown, every existing system of taxation is an historic growth; it is relative to the conditions of its evolution, the circumstances of the country, its physical resources and environment, the stage of industrial development, the character of the people, and their history and form of government. Thus a system suited to one country may be quite inapplicable to the circumstances of another; modifications cannot be determined purely by the dictates of abstract theory; what is economically and politically expedient must be considered, and the history and sentiments of the people are factors in the decision. This does not mean that principles differ, but that the circumstances of their application are different. A young colony with a scattered population may find import duties the most convenient and economic mode of raising revenue; an income-tax at that early stage of development would be difficult of assessment, and perhaps impossible in application. As the colony develops, other methods

of taxation become more appropriate, and with the higher organisation of the community new forms of wealth arise which provide fresh sources of revenue.

The existence of a vast variety of economic, social, and racial conditions among the different components of the British Empire entirely precludes the possibility of an imperial Zollverein or customs-union. The systems of taxation in the mother country, the self-governing colonies, dependencies, and Crown colonies, though based on the same fundamental principles, must exhibit differences in detail; justice, economy, and convenience have to be realised in different sets of circumstances. An income-tax and a tax on beer may satisfy the canons in Great Britain, while a duty on salt may better conform to economic principles in the conditions of our Indian fellow-subjects.

Adam Smith's classical canons have come to be generally accepted as the recognised rules for guidance in taxation. They were the basis of the reforms of Pitt, Peel, and Gladstone, and are still regarded as offering the best working principles for constructing a sound scheme of taxation, whilst they can be supplemented by sundry other minor maxims. These canons advance four regulative principles:—equality, certainty, convenience, and economy.

The canon of equality, which embodies the principle of justice, states that "the subjects of every State ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities, *i.e.*, in proportion to the revenue which they respectively enjoy under the protection of the State." This canon is fundamental, and it applies to the scheme of taxation as a whole; the term "ought" emphasises

the idea of duty; the "support of the government" indicates the political object of taxation; "protection of the State" indicates the services rendered; while "ability to pay" advances the notion of equitable sharing of cost.

The other three canons are merely economic rules to be applied separately to each tax in order to secure productivity; they have been called "administrative precepts," and are as follows:

(*a*) "The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor, and to every other person."

(*b*) "Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it."

(*c*) "Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State."

In Great Britain the Budget system is a guarantee of "*certainty*," owing to the publicity and possibility of discussion in the House of Commons of every detail of taxation, and the sanction which must be given by Parliament. Arbitrary taxation is fatal to production, it becomes simply robbery by the government or by its agents. Its effects were illustrated in the misery and poverty produced by the methods of taxation formerly employed in Egypt. Similarly the *taille*, a village land-tax in France before the Revolution, was an arbitrary and variable impost on the possessions of every cultivator; its extortionate and oppressive character was

the cause of great distress; it occasioned evasion and misrepresentation, and kept the miserable peasants in a state of constant irritation and disaffection.

Convenience consists in securing that producer and consumer are disturbed as little as possible by the time and method of demanding the tax. Many taxes, now obsolete, offended against this canon: the malt-tax interfered with the processes of production; the hop-tax often compelled growers to sell their crops as soon as gathered in order to pay the duty, thus overstocking markets and forcing down prices to the advantage of the middlemen and the injury of the producers. In modern times bonding houses secure for traders a minimum of inconvenience from customs and excise duties, while payment of taxes on commodities at the time of purchase is most convenient for the consumer. Similarly taxes on contracts paid at the time of exchange and on legacies at death satisfy the canon of convenience. Income-tax perhaps conforms less than any other tax to this canon, and its inconvenience would become a serious objection to the tax if it were made universal and adopted as a substitute for indirect taxation.

The canon of *economy* points to productiveness as the fundamental fact in taxation; the aim is revenue, and in its acquisition the productive powers of the community are not to be reduced, *i.e.*, taxation should be arranged so as not to diminish the efficiency of land, labour, or capital. Any system that wastes the tax in collection by employing a needlessly large staff of officials, or by causing unnecessary expenditure in production, loss of time or annoyance to the payers, that is restrictive in its methods, or that leads

to smuggling and evasion, offends against economy. Generally speaking, indirect taxes are less economic in Adam Smith's sense than direct taxes. Protective taxes which direct labour and capital into less productive channels, and raise only a small revenue on the imported articles in proportion to their cost to the community, infringe this canon; their yield is small while their cost is relatively great, and the loss they occasion in other directions is considerable.

The farming of taxes on commodities, a system once common in Europe, and still existent in Persia and some other backward countries, is not productive to the State, since the taxes yield much less revenue than the amounts exacted by the rapacious intermediaries. This method belongs to an early stage of development. To the tax-payers the taxes are uncertain and often extortionate, they are also often collected without regard to convenience; the system impedes progress and checks enterprise by its economic defects, and thus causes additional loss to the payer.

The *Gabelle*, a tax levied upon salt in France for some three hundred years before the Revolution, is an example of a tax which offended all the canons of taxation. Salt was a government monopoly maintained for revenue; all classes were required to purchase a minimum amount per head, while the State price was arbitrary and variable, and the tax was often farmed out by companies which made a profit by the sale; smuggling was common, and numbers were unproductively engaged in the illicit trade, while many revenue officers were wastefully employed in its repression; on every ground the tax was uneconomic and mischievous.[1]

The canons of Adam Smith lay down the first condi-

[1] An excise duty on salt in England in 1648. 1705-8 Reports of House of Commons show that salt duties in hard times reduced the national fish supply.

tions for securing a productive, just, and efficient system of taxation; an unjust system must be uneconomic in the long-run since it discourages industry and thrift, which are the sources of all wealth and therefore determine the possibilities of taxation; while arbitrary, uncertain, inconvenient, and wasteful methods must also ultimately diminish the effective yield of taxation.

It is in strict conformity with the principle of justice that representation and taxation should accompany one another as correlative rights and duties. The payment of taxes should entitle the tax-payer to a voice in the imposition of taxation, and conversely the right to determine expenditure entails a corresponding duty of contributing to the revenue in proportion to ability. There has always been a tendency for the classes in power to place the chief burden of taxation upon others, and this inclination is not less evident now that the centre of political gravity has been transferred to the masses; it is exhibited in the tendency to increase direct taxation from which the majority are free, and to reduce indirect taxation which touches the multitude more.[1]

[1] The Chancellor of the Exchequer, Sir M. E. Hicks-Beach, in his Financial Statement in the House of Commons, 1896, remarked: "The fact is that the direct tax-payers have borne the bulk of our new burdens. This has been the continuous direction of our financial policy for fifty years. In 1841, the year before Sir Robert Peel imposed the Income-tax, I find that of every £1 that was raised by taxation 14s. 7¼d. was paid by the consuming classes, and 5s. 4¾d. was paid by the propertied classes; but now of every £1 raised by taxation 10s. 5d. is paid by the consuming classes, and 9s. 7d. by the propertied classes.

"In 1841—2 with a tax revenue of £50,000,000 indirect taxation paid 73 per cent. direct 27 per cent."

Adam Smith's canon of equity has given rise to much controversy. He interprets ability to pay in terms of income. It is pointed out that this is an objective standard, yielding a material, tangible thing, a tax, but that the fundamental idea in ability is "sacrifice," which is really a subjective state, a psychical condition, incapable of measurement by any common external standard. Yet since taxation is the matter at issue, sacrifice must be translated into terms of money-taxes. Mill thought that the canon of justice would be satisfied if taxation imposed "an equality of inconvenience," and "left the payers of taxes relatively in the same position as it found them." Attempts to realise this doctrine of equality of sacrifice have led to various qualifications and to proposals for freeing necessaries, leaving a minimum income untaxed, and for graduating taxes so as to place the heavier burden upon the richer classes. These measures all present great practical difficulties, and come into conflict with the principle of productiveness; in fact, the means for measuring "equalities of inconvenience"

"In 1861, out of £64,000,000 indirect paid 62 per cent. direct 38 per cent."
"In 1891, out of £83,200,000 indirect paid 56 per cent. direct 44 per cent."
"In 1895, out of £92,482,000 indirect paid 52 per cent. direct 48 per cent."

"There has been a gradual transfer of burden from the indirect to the direct tax-payer. The result is that, whereas in 1841 £1, 7s. 3½d. per head of the population was produced by indirect taxation and 10s. 1d. by direct taxation, now £1, 4s. 9d. comes from indirect taxation, and £1, 2s. 6d. from direct taxation."

In considering this statement, it must be remembered that the great fiscal reforms of Peel and Gladstone, by which the principle of "taxation for revenue only" was established, took place between 1842 and 1860.

accurately are not to be found, and only a very rough approximation can be made.

Professor Edgeworth's phrase "minimum of disutility" has the advantage over "equality of inconvenience" that it appeals to the only practical test of value in the price that one will pay for the use of an article or for a service; but there is still this difficulty, that while the final utility of an article to an individual is determined by himself in the price he is willing to give, in the case of taxes imposed by authority the final utility (or disutility) has to be determined by an external power, the government.

The interpretation of ability as "faculty" seems to get rid of the subjective attitude; the problem becomes an estimate of capacity for taxation, of which the criterion is held to be income. This view, at all events, excludes the exemption of privileged classes, such as obtained at one period, especially in France before the Revolution; but equality is still difficult of attainment, for incomes are not independent of circumstances: all must pay, but in what degree?

That taxation must not diminish the productive powers of society is a rule as fundamental as that of equity; but productiveness would suffer if income, whether from land, labour, or capital, be taken as the sole criterion of capacity.

Money-income, without any other consideration, cannot form a just measure of "ability to pay." Inequalities in the conditions which affect capacity to pay taxes are innumerable among persons with the same money-income. Bentham, Mill, and Ricardo argued on this account that a minimum or subsistence income should be exempt, as a man must live before he can pay

taxes; they therefore held that net, and not gross, income should be the measure of power to pay taxes, for it is not economic that taxation should encroach upon productive power. But such a minimum to be just would need to be a variable quantity in order to meet different circumstances, for the definition of necessaries must be relative to position and duties in life; therefore no fixed or uniform limit of exemption can be other than arbitrary. But no income-tax, even after the exemption of a minimum, can secure distributive justice. A 5 per cent. duty on a net income of £100 is a far greater sacrifice than a 5 per cent. duty on a net income of £1000. This difficulty has suggested a progressive income-tax, but any graduated scale must also be arbitrary, and still the practical difficulty remains of interpreting equity to different circumstances; further, it is objected that a heavy tax on large incomes would be a fine upon the more thrifty and industrious, and a check upon saving and the accumulation of capital, and therefore a sure means of defeating the end of taxation by reducing production. The English income-tax has been graduated with a view to minimising these defects by giving exemption to a considerable minimum (£160)[1] and also by adopting a scheme of abatements or concessions which converts it into a degressive tax; its best defence is, however, that it is only part of a system; it touches only a fraction of the community, and the majority escape it altogether. The relatively greater degree of indirect taxation paid by those with the lower incomes is supposed to provide compensation in the system.

Other objections are raised against adopting income as a test of ability—viz., that it takes no note of the

[1] Reduced to £130 in 1918.

nature of the source of the income, whether from permanent investments or from temporary and uncertain earnings, out of which savings should be made for old age and contingencies. A very partial recognition of this cause of inequality is made by the exemption from income-tax of premiums on insurance; but many other forms of saving are equally worthy, yet the application of exemption to all of these seems impracticable. Again, before income can measure equality of sacrifice, there should be some consideration of the special circumstances of individuals—the size of family for equal incomes, and the very different claims upon individuals which arise from social position and duties, also the health and probable length of working life of the earner of the income, and other circumstances which may render his income more or less precarious. From considerations of these inequalities it is conclusive that income alone, even with the exemption of a minimum, is no reliable test of capacity to pay. Mathematical equality is very far from attainable, and to secure any approximation to objective equity in a working system, various modes of taxation must be combined.

Consumption has been suggested as a better test of ability and as the sole basis of taxation; but taxation on expenditure alone would be very inequitable, and it is scarcely practicable in a complex civilisation; the machinery requisite for its collection would be most elaborate and expensive, since duties would have to be placed upon very many kinds of consumption. It would be necessary also to define consumption, and to determine whether wealth expended in promoting an industry (which is capital) should be taxed, or whether personal expenditure only should pay; the difficulty of

discriminating in these cases would be immense. Evasion would be extensive, wealth not utilised would escape taxation, consumption would be discouraged, and as a consequence production would diminish. Necessaries, as the most pressing form of consumption, would be unfairly burdened, and the man whose entire earnings were expended on mere subsistence would pay on his whole income, thus the burden of such taxation would be most severe on the least able. The tax system of Great Britain a century ago was fairly representative of the working of this principle.

Again, it has been proposed to limit taxation to *realised wealth.* But this would in effect impose a penalty on saving, and would tend to reduce capital; the prudent would suffer, the wasteful and extravagant would escape. Such a system would be futile and self-destructive, since it would check production, and cut off revenue at its source; employment would be diminished and the need for taxes would increase while the means for obtaining them were being reduced, and other methods of raising revenue would ultimately have to be adopted.

A tax is called *Proportional* when the rate is uniform on all incomes and quantities; the tax becomes a percentage and is proportionate to the amount taxed. The income-tax (ignoring abatements) is a proportional tax since it exacts the same rate per £ on all incomes. The proportional principle is recommended by its simplicity and by its easy application; it is objected, however, that it does not yield equality, and that larger incomes can afford relatively greater deductions than the proportional method applies.

Graduated Taxation has been advocated as a means

for realising more nearly the principle of equality; there are several methods of graduation, one or other of which has been adopted in the assessment of income-tax by different countries.

In *Progressive Taxation* a graduated scale is adopted, the rate of taxation increasing as the amount assessed increases; the principle is best illustrated by the Estate duty, which is graduated on a scale of twelve steps, commencing at 1 per cent. on £100 and attaining a maximum of 8 per cent. on £1,000,000. The Inhabited House duty is another example of moderate graduation. The argument for graduation is based on the theory of diminishing utility; it is urged that sacrifice, like utility, diminishes with each additional increment of wealth after some point has been reached, and that, therefore, a greater percentage deduction from large incomes will exact no more sacrifice than a smaller percentage does in the case of small incomes. It is objected that any system of graduation must be arbitrary; that the increased rate of taxation is a form of appropriation of property which is adverse to thrift and production; and that the method is open to abuse, and may be employed for purposes of confiscation of wealth by merely increasing the rate in the upper scale. It is also maintained that the system tends to encourage evasion and false returns, and that it may lead to a diminution of wealth by checking saving, or by causing the emigration of capital to countries offering greater security for its enjoyment.

On the whole the argument for graduation on a rational and moderate scale seems to be valid; it helps to satisfy the demands of equity and productiveness, if the principle be limited in its application to a few

direct taxes in a mixed system. As regards the Estate duty, the ability to pay is unquestionably greater in the case of larger legacies, and it is just that their contributions to taxation, though considerable, should be also at a higher rate.

Once more we must recall the fact that in Great Britain taxation is an aggregate, and the Death duties are only a fraction of a system which has to be considered as a whole; the graduation of this tax tends to counterbalance inequalities in other parts of the scheme. It is compensatory to possible over-weighting of the indirect factors in taxation, and it is an attempt by manipulation of parts to obtain that balance of equity which no human skill can wholly satisfy, but which the problem of taxation imposes upon governments.

Taxation may also be graduated on a *regressive principle*, that is, the rate may be graduated so as to decrease as the assessed amount increases; this form is, however, rare in practice, though it found illustration in the French poll and hearth taxes in the fourteenth century when the poorer classes paid at the higher rates.

From 1907 frequent changes in *Death duties* and *income-tax*[1] have rendered these taxes *differential* and

[1] The 1916 scale reduced the income *untaxed* to £130. Incomes above £130 and not exceeding—

£500	pay on *earned* part,	2s. 3d.,	on *unearned*,	3s.
£1,000	"	2s. 6d.,	"	3s. 6d.
£1,500	"	3s. 6d.,	"	4s.
£2,000	"	3s. 8d.,	"	4s. 6d.
£2,500	"	4s. 4d.,	"	5s.
ceeding £2,500	"	5s.,	"	5s.

more *exacting*. The scale now discriminates between *earned* and *unearned* incomes, *i.e.* between wages and interest on investments.

A progressive tax cannot be easily applied to commodities; the attempt would be costly, unsatisfactory, and unproductive. Again, a progressive tax on the products of large industries would operate to counteract the law of increasing returns, and would thereby cause an economic loss. Applied to incomes a progressive tax cannot secure political justice; no calculus can yield a scale which will measure the relative sacrifices. The scale could easily be arranged so as to appropriate a large part of income and thus level down incomes. Its effects would be to destroy the springs of industry and thrift, to cut down production, lead to the emigration of capital, and check economic progress. The tax would fall heavily on the few, and would touch the majority only in its after-effects. Such a tax could not be relied upon to yield a permanent and adequate revenue; while infringing the canon of equity it would fail in the economic aim of steady productiveness, which is a first desideratum in a scheme of national taxation. Nor can it be too frequently repeated that taxation should not check productiveness by discouraging industry or saving; for out of the products of industry alone can taxes be paid.

The canons of Adam Smith may be supplemented by minor rules, most of which really follow as corollaries from the principles of equity and economy, and are a restatement of points which emerge from this discussion.

(1) A system of taxation should be simple, plain, and intelligible to the common understand-

ing, and the general incidence should be traceable with some degree of certainty. The primary necessaries of life should be free; taxation of commodities should be restricted to those which are less essential, and preferably to luxuries.

(2) Taxation should interfere as little as possible with the processes of industry; it should fall on net income, and be such as *not* to check the growth of capital or cause it to migrate.

(3) The system should provide for *elasticity*: that is, annual revenue should be able to be adjusted easily to annual demand. This is better attained by modification of existing taxes than by imposing new taxes.

(4) A system combining both direct and indirect taxation is desirable, both on grounds of equity as a method of reaching all classes, and as affording various means for easy modification and ready adaptation to emergencies.

(5) Frequent modification of taxes on commodities is undesirable, since every change creates dislocation; old taxes will have led to accommodation, new taxes touch many interests indirectly. This has been called the canon of certainty in the form of stability.

Note.—In *Pure Proportional Taxation* income alone is the standard. In *Qualified Proportional Taxation* modifications have to be considered, such as abatements, a free minimum, exemption of savings (insurance), regard for source of income (wage or interest), deduction for family, etc.

CHAPTER IV

DIRECT TAXATION—TAXES ON PROPERTY AND INCOME

THE revenue of the sovereign was in early times derived mainly from the land. In the Anglo-Saxon period the royal demesne was the chief source of revenue; while occasional taxes were levied for defence, such as ship-money, Danegeld, and hearth-money. Danegeld, interesting as the first English money-tax, was a tribute raised to buy off Danish invaders; later it grew into a customary levy on land, and was continued down to the end of the twelfth century. The royal demesne was much increased at the Norman Conquest, and was frequently added to afterwards by forfeitures and escheats. The feudal lords paid military and other service for their lands; these services were commuted at a later period into money-payments. The inferior tenants also paid service to their lords for the lands they held, and this also was commuted into a money-payment in course of time. Irregular contributions to revenue for special purposes were obtained by the demands of the king for "aids" or "supplies" from his tenants and from the towns on the demesne. In the fourteenth century these "aids" were replaced by a system of taxes on

"movables" granted by Parliament. These contributions became established as a kind of property-tax under the name of "fifteenths and tenths," representing an estimated proportion of the value of such taxable property; the former were grants from the counties, levied upon the estimated value of cattle and crops; the latter were grants from the towns, levied upon the capital value of stock-in-trade and chattels. In 1334 a special enquiry was made by Parliament for better determining and assessing these grants, and the system was revised by fixing upon a total sum which was apportioned to the towns and counties; with modifications this species of subsidy, levied by assessment on localities, and collected by a kind of rate on property, was continued until the seventeenth century.

Meanwhile another mode of raising revenue by means of a poll-tax had been devised; this was a personal tax graduated according to status, and supposed to be proportioned roughly to the taxable capacity of the contributors, as measured by their rank and income. The poll-tax was, in fact, an early but somewhat arbitrary form of income and property-tax, oppressive in its incidence, and very unpopular; its injustice had a part in precipitating the Peasants' Revolt of 1381. A similar tax was authorised by Parliament in 1435 [1]; later, under the Tudor sovereigns, it was replaced by "subsidies" charged on rent and

[1] The speaker, John Bowes, proposed what may be called a genuine graduated income-tax, arranged in three schedules. The minimum taxable income derived from manor lands, tenements rents, annuities, etc., was £5 a year. The tax was rated at 6d. in the £ from £5 to £100; 8d. in the £ from £100 to £400, and 2s. in £ above £400.

movable property, which supplemented the grants of "fifteenths and tenths." These grants of subsidies for extraordinary expenditure continued until 1663, when they had ceased to be a productive source of revenue; the last yielded only £282,000, and henceforth they were displaced by special assessments. At intervals the poll-tax or capitation grant was revived to meet the special expenses of war; at the Restoration, and in 1666 and 1677, a poll-tax was levied by assessment made on voluntary declaration, and again between 1689 and 1698 the increased revenue required for the war with France was partly met by a poll-tax. Its special recommendation was that it was easily assessed and collected, but it was often evaded, and was becoming so little productive that after 1698 it was not repeated.

Under the Commonwealth Parliament raised revenue from both real and personal property by "monthly assessment." This was a kind of subsidy, collected locally for the purposes of the Civil War, and supplemented by the old port duties, tunnage, poundage, etc. Then, copying a practice which prevailed in Italy and Holland, Parliament introduced a new tax, an excise upon home-produced commodities — beer, ale, cider, articles of dress, etc. At first this excise was very unpopular, but it was declared by Parliament in an ordinance of 1649 to be "the most equal and indifferent levy that could be laid on the people."

At the Restoration in 1660 the Crown Revenue was fixed at £1,200,000; this was raised mainly from three sources: (1) the customs or old port duties; (2) the new excise, which was taken in lieu of obsolete feudal duties abolished in 1645 and the old royal prerogatives.

of purveyance, etc., and was called the Hereditary Excise; (3) a temporary excise which practically duplicated the Hereditary Excise.

A new kind of House duty called Hearth-money was introduced in 1662, that somewhat resembled an income-tax, being based upon the number of fire-places in a house, which number was supposed to afford a fair index of income. The tax was rigorously exacted by the "chimney-men" who farmed it; owing to their inquisitorial methods it was very unpopular, and it was repealed by William III. at his accession, when it realised £200,000. An instructive indication of the progress in commerce, and the growth of the Credit System in this country is afforded by a tax on bankers, instituted in 1670, which yielded £800,000.

A new settlement of revenue became necessary at the Revolution of 1688; practically little revenue was now raised from the old Crown demesne, and the new excise and port duties had become the chief sources of revenue. *The Civil List* was therefore established as a definite fund for the maintenance of the Royal Household, the expenses of judges, ambassadors, etc., and for the support of the annuitants and pensioners of the Crown; the amount was fixed first at £600,000. The Civil List, so instituted, was afterwards increased in amount, and was voted henceforth to each sovereign on accession to the throne. Since 1787 it has been charged upon the Consolidated Fund. In 1830 the expenses of justice, etc., were provided for separately, and the Civil List has now reference only to the maintenance of the "Dignity and State of the Crown," and amounts at the present time to £470,000.

In 1692 what is now known as *The Land Tax* came

into existence. This tax was intended as a substitute for the "Monthly Assessments" commenced during the Civil War, and was both a property and an income tax; it was a sort of lineal descendant of the old "Tenths and Fifteenths." The tax was assessed at 4s. in the £ on the annual value of all land and houses, on personalty of every kind, on the stipends of public officials, and on movables (goods and chattels). It was voted annually, and yielded at first £1,922,712; but the annual assessment was found difficult, and the results proved very variable; therefore Parliament in 1697 revised the system, and decided to raise a fixed amount of about £1,500,000 by assessing the quota to be raised in the various counties and towns on the then valuation. This method of assessment became a source of great inequality of incidence, which was vastly augmented by the subsequent growth of population, and especially after the Industrial Revolution, with its development of new manufacturing and commercial districts and towns.

At a very early period in its history, the portion of the tax assessed on personal property declined, and in course of time fell out of the assessment; in 1833 it was formally repealed, leaving only the tax upon land. The land-tax continued to be voted annually until 1798, when Pitt, under stress of financial difficulty in raising funds for the war, revised the tax and converted it into a perpetual rent-charge or permanent claim of the State upon the rent of each district; the quota thus came to be interpreted as representing a right of the State in the land. The capital value of the land-tax at this revision has been estimated at £70,000,000. Pitt at the same time provided as an

alternative a power of redemption of the tax by payment of the capital value. Half a million was redeemed in the course of a few years, and during the following century about half the tax was redeemed, the total being thus reduced to £986,000 from the lands still chargeable.

The land-tax again came under revision in 1896. At this time the rent-charge realised less than 1s. in the £ on the whole valuation, and the incidence was most unequal, varying from a fraction of a penny in the £ in some populous parts, to nearly 4s. in a few rural districts. The charge averaged 2d. for Lancashire, 3½d. for Durham, 2s. 1d. for Bedfordshire, and 4s. for some parts of Essex. Viewed as a tax, the rent-charge presented in 1896 many inequalities; much land was wholly exempt, the tax having been redeemed; a large proportion of the land subject to the tax had changed ownership; and, as in each case it had been purchased at the reduced capital value which the charge produced, the tax imposed no burden upon existing owners. By no method could the charges be equalised, nor could they be said to constitute a true tax upon land. The principle was adopted that the rent-charge represented ancient national rights of property in the land, and that in fact such land was a matter of joint-ownership, as in the analogous case of land subject to tithes. By the Finance Act of 1896 it was enacted that the charge should in no case exceed 1s. in the £ on the valuation, and that any sum in excess should be remitted, thereby making in effect a free gift from the community to the land-owners of the capital value of that portion of the -charge. It was also enacted that in cases where

the tax realised less than 1d. in the £ on the valuation, it should be paid at the rate of 1d., and the excess should be applied to the redemption of that quota. Other exemptions were made in 1898 in favour of owners whose incomes were less than £160 and £400. These exemptions reduced the yield by about £200,000, and left the average rate over the whole country at 4d. in the £.

As a source of revenue the so-called land-tax has now little importance; its interest resides in its history, and the principles which it illustrates. Its present yield, only £700,000, is insignificant for a tax raised from the soil; the administration is relatively costly, and its extinction would seem desirable. Various plans have been suggested for hastening the process; one of the most feasible is that a triple assessment should be made annually, and that two-thirds of the amount collected should be applied as a sinking fund for the redemption of the tax in ten years. This would give twenty years' purchase for a kind of forced redemption spread over ten years; the capital would be applied to the reduction of the National Debt.[1] This proposal seems to conflict with no economic principle, and is consistent with the past history of the Land Tax. The extinction of the tax would remove a cause of much misconception on the part of those who, unacquainted with its history, advocate its increase for the purpose of appropriating "the unearned increment."[2] As the proposer of this scheme remarks,

[1] *Economic Journal*, September 1905.—A. Hook, on "The Present Position of the Land Tax."

[2] See chapter on "Local Taxation" for a statement of this problem.

had Pitt instituted a rate instead of a fixed charge, with the enormous increase in the value of property during the past century, it might have become the source of a considerable national revenue, and would have accomplished the solution of that recurrent and difficult question of the "unearned increment." Such a tax would have had other and important effects upon landownership and the development of agriculture and industry, upon the investment of capital in land, and upon the "income and property" tax in its relation to land.

Rent of land, like other sources of income, pays income-tax. Estate duties (lands, tenements, etc.) yielded, according to the Finance Accounts for 1914, £27,359,000 property-tax on lands and houses, of which about one-fourth was contributed by the tax on rent of land. Lands and buildings also form the basis of assessment for local rates; these amount to over £50,000,000, and of this sum land contributes more than one-fifth.

The modern *Income-tax*, as we have seen, has been evolved from the earlier poll-tax. It is a direct tax based on the total income of the payer from all sources, and is graduated on a special system of exemptions and abatements; as now levied, it was first imposed by Pitt in 1799 for purposes of war, and it then yielded £6,000,000. In 1801, after the Peace of Amiens, the tax was suspended, but it was reimposed in 1803 as a property and income tax under five classes or schedules. Incomes under £60 were exempt, and there was an abatement on incomes between £60 and £150; the rate also varied from [illegible] to 11d. on incomes under £150; above that sum

the rate was 1s. in the £; the rate was afterwards increased, until in 1807 it reached 2s. in the £, or 10 per cent. When the tax was repealed in 1816, at the close of the war, it realised £15,500,000.

In 1842 Sir Robert Peel reintroduced the income-tax as a peace tax in order to meet anticipated losses of revenue from temporary reductions in import duties arising out of his reforms. The tax was levied on incomes above £150 at 7d. in the £, and was imposed for three years; it was then renewed and from 1846 became a recognised part of the tax system, displacing import duties of a partially protective character. The minimum of exemption has been varied several times; from 1853 to 1875 it was £100; in 1914 it stood at £160. The principle of graduation is applied in various ways; for the latest modification, adopted during War, see APPENDIX.

Although the modern income-tax commenced as a war-tax, it has now become an established element in the British tax system, and democratic tendencies strengthen its position. It is relied upon to yield a considerable contribution to revenue. Only once since 1843 has it been proposed to abolish the tax; this was by Mr Gladstone in 1874. It is regarded as a national reserve, and is *always increased* to meet *special war expenditure.* The rate has varied from 5d. in 1853 to 1s. 4d. during the Crimean War in 1856, and from 2d. in 1874 to 1s. 3d. in 1902 during the South African War. In 1905 it stood at 1s. in the £, or 5 per cent. on fully assessed incomes in a time of peace. In 1843 each penny yielded £500,000; for the year 1904-5 the yield per penny was £2,604,000. The total revenue from income-tax

for the year 1914 was £43,529,000, plus a *super tax* of 5d. to 1s. 4d. on incomes above £3000, which yielded £3,320,000.

Income-tax payers are classed under five heads or schedules, as (*a*) owners of property, land, and houses, (*b*) farmers and occupiers of land, (*c*) fund-holders, (*d*) receivers of interest, profits, and earnings from business or investments, (*e*) recipients of salaries from public sources.

The method of collection is simple and economic, and dividends on investments pay in bulk at the source; the tax is highly productive, and it can be easily modified to give elasticity of revenue. The tax satisfies fairly the canons of Adam Smith; it is considered equitable as forming only part of a system; further, it grants immunity to small incomes, and is graduated so as to ease the pressure on limited incomes. There is no doubt, however, that it presses with greatest severity on the lower grades of professional earnings and salaries: it has been decided (1914) that the limit of exemption should be fixed at a lower sum, so as to include all regular incomes not less than £160. There are great practical difficulties, however, in the administration of an income-tax on a very complex scale, and others would arise in devising machinery to secure economic collection and certainty of payment from the weekly-wage classes.

Regarded singly, the income-tax can never be wholly equitable. The ability of individuals to pay is modified by many circumstances — age, health, family, permanence or precariousness of income, and the need to make provision for the future — all of

which are incommensurable. The real test of ability to pay is capacity to spend, and of this there can be no adequate common measure. The incidence of the income-tax is upon the payer, whether his revenue consists of rent, profits, or wages, and it cannot be directly shifted; it diminishes the power of the taxed individual to spend by the amount it appropriates, and only in so far as it has a tendency to reduce his industry and earnings can it be properly said to affect other members of the community. A very burdensome rate might probably produce this effect, but a small tax, forming only part of a system, places no appreciable check on the growth of income in a country where the various motives to acquire wealth are so strong as they are in Great Britain.

The income-tax is very easily manipulated by an alteration in the rate to meet exigencies, and its yield can be approximately estimated. The steady increase in the amount assessed for income-tax affords a very fair test of the growth of wealth of a country, and it has been uniformly advancing over many years in the United Kingdom, notwithstanding a large increase in the rate; this fact is illustrated in the increased yield per penny.

Few countries have copied the British system of income-tax, although many have adopted some kind of graduated tax on property or earnings. The United States employed the income-tax as a temporary expedient during the Civil War, and continued it during the reduction of the debt until 1872. An attempt was

made in 1893 to introduce it as a permanent federal tax of 2 per cent. on incomes above £800 a year, but it was ruled by the Supreme Court to be unconstitutional. In France various attempts have been made to introduce a general and progressive income-tax, but as yet it has not been accepted. The French have, however, sundry direct taxes which form a kind of equivalent; these are a fixed percentage on incomes from land, a tax (called *Patente*) on trades and professions based on a general estimate of profits in those occupations, a tax on buildings, doors, and windows, according to size and number, which are regarded as a measure of taxable income, and a tax on personalty in the form of a 4 per cent. duty on incomes from securities other than State funds.

Belgium, Russia, Portugal, and Hungary have no proper income-tax. The federated European states (Germany and Switzerland) employ indirect taxes (customs, etc.) for purposes of federal expenditure, but the various component states and cantons make use of taxes on income for local purposes, and in some form or other most of the other Continental states have adopted a tax on incomes as part of their fiscal system. In every case the scheme is more complicated than the British, and the tax affects a much larger section of the population. The maximum exempted is usually less than £50; in Prussia, *e.g.*, it is £45, while all incomes are liable in Spain and Italy; the schemes are graduated by various complex methods, which pay regard to the source of income, either by differentiation

of rates, or by employing a fixed rate together with supplementary taxes on various forms of capital and modes of industry. In some cases the graduation is effected by the classification of incomes in groups, each group paying at a different rate; also discrimination is made between "earned" incomes (wages) and "unearned" incomes (profits). The scale of graduation is usually more extended than in the British system. From the year 1909 the principle of graduation has been much extended in Great Britain, and has been applied to both income-tax and *Death* (estate) *Duty* by very elaborate scales (see APPENDIX).

The Continental systems of income-tax aim at securing equity in the operation of the tax regarded singly, by taking into consideration the various conditions of its incidence; consequently their schemes are very elaborate, the machinery of collection is more costly and less efficient than that of the British system, and they are relatively less productive.

Most of the Australasian colonies have adopted an income-tax, but their methods of graduation are not uniform; the rates are different, and the minimum exempt is also variable. In all, however, differentiation is made on several grounds, and more especially between incomes from property and incomes from personal exertion. In New South Wales, where there is also a land-tax and a death duty, the rate of income-tax is uniform at 6d. in the £, but incomes under £200 derived from labour are exempt.

Canada has no income-tax for State purposes.

Duties on Inheritance of Property are very ancient, and are most probably connected with the theory that unowned wealth and property of intestate persons

belonged of right to the State. They existed among the Romans. Under Feudalism customary dues were paid on inheritance, and were graduated in degree according to the value of the estate.

The *Death Duties* were introduced into Great Britain with the Stamp Act in 1694, and were copied from Holland. In time they developed into a complex group of taxes which displayed various inequalities and irregularities; these were swept away by the Finance Act of 1894, and a simpler system of *Estate Duty* was instituted. At the time of the passing of this Act the duties were collected under five distinct heads:

(1) *Probate Duty.*—This was first levied in 1694, on personal estate only, at 5s. on all probates of £20 and upwards; it was afterwards raised to 10s. The scheme was often modified, and became ultimately a graduated tax on all sums above £100, reaching 3 per cent. at £1000.

(2) *Legacy Duty*, introduced by Pitt in 1796, was payable on legacies only, and not on realty or property passing under settlement: it was graduated on the basis of consanguinity.

(3) *Succession Duty* was imposed in 1853 by Gladstone on both real property and settled personalty; it was calculated on the value of the interest of the successor, and graduated according to his relationship to the settlor.

(4) *Account Duty* was a special duty to secure payment on property which, by deed of gift, etc., had escaped the probate duty; it was adopted in 1881 by Mr Gladstone.

(5) *Estate Duty* was an additional tax of 1 per cent. imposed on both personalty and succession when the amount exceeded £10,000; it was introduced in 1887.

This scheme indicates the development of a tendency to tax accumulated wealth on some progressive principle. The Finance Act of 1894 carried this principle much further. The whole system of duties was revised. A single *Estate Duty* was imposed on all property whatever, whether personal or real, settled or not settled; graduation was adopted in a scheme of twelve stages, commencing at 1 per cent. on sums between £100 and £500; and reaching 8 per cent. on £1,000,000. Subsequent revisions have greatly augmented these duties. The scale in 1914 was from 4 per cent. on £5000, 5 per cent. on £10,000, 6 per cent. on £20,000, on to 20 per cent. on £1,000,000. The yield in 1914 was £27,359,000.

The Estate Duty is assessed on the aggregate estate, which often consists of many items and varieties of property; thus the total value from all sources must be ascertained at once in order that duty may be paid, but in this process many difficulties arise, and inequalities are unavoidable. A portion of the estate duty is paid to the Local Taxation Account, and the greater part of this sum is apportioned between the councils of administrative counties and county boroughs for purposes of local expenditure.[1]

Legacies and Successions pay also a further duty, graduated according to relationship: children or parents

[1] This was originally 80 per cent. of half the proceeds of the Probate duty in England; now a corresponding sum is paid out of the Estate duty derived from personal property. (See also p. 165.)

pay 1 per cent.; brothers, sisters, and their descendants 5 per cent.; other relatives 5 or 6 per cent.; and strangers in blood 10 per cent. The 1 per cent. duty is not charged when Estate duty is paid.

The incidence of the estate duty is upon property which passes at death; it is therefore a direct tax upon the recipient of the property, and cannot be transferred. It has, however, certain indirect effects upon the distribution, and possibly the production of wealth: firstly, by the taxation of capital it raises revenue which would have to be provided by other means (as by taxes on income or commodities) if the estate duty were abolished; secondly, it may tend to check industry and accumulation at an earlier stage by weakening the motives to effort in a very productive class, just as a fall in the rate of interest is said to have a tendency to diminish thrift and to reduce capital. Again, the duty which is paid out of a large estate at death may affect the scale of the business in which it was invested by withdrawing capital, and thus it may check production. The duty also falls severely upon the families in the case of small properties at a time when their expenses are necessarily great. This is an argument in favour of exempting small estates or reducing the duty on the smaller capital sums left at death.

The estate duty is, by its nature, an irregular source of income, yet it realises a fairly constant amount on the whole, and has come to be counted upon with some assurance as a regular contribution to the annual Budget. The tax has gained popularity with the masses since it falls only upon the propertied classes; it has also the characteristics of a measure for altering the redistribution of wealth by the appropriation of

accumulated wealth. If, however, the scale be unduly heavy, it may become an instrument of confiscation, and by introducing insecurity it may seriously discourage accumulation, encourage gifts *inter vivos*, and create evasion in various other ways.

As forming part of a composite system of taxation, the death duties, like the income-tax, tend towards the attainment of equality of sacrifice, since they are direct taxes falling only upon classes who benefit by accumulated wealth, while indirect taxes touch wage-earners with small incomes more acutely.

Professor Bastable maintains that a death duty is in effect an extra income-tax capitalised in one sum; he finds support for this view in the growing practice of insuring against the reduction in value which the tax otherwise causes to the recipient of the estate.

The Death duties afford the best examples of progressive taxation, though the system of graduation adopted is necessarily arbitrary; it is difficult, however, to apply the principle of progression so as to secure a scale which shall be in all respects equitable, either as regards the incidence of the tax considered by itself in its effects on different cases, or as regards the relation of the tax to the whole system of taxation of which it forms only a part. The following figures (1913-14) serve to illustrate the relative yield of the different death duties.

1. Estate Duty on Property .	£21,648,595
2. Legacy and Succession Duty .	5,390,386
3. Probate and Account Duty .	37,492
4. Temporary Estate Duty .	29,553
5. Corporation Duty . . .	59,094
TOTAL .	£27,165,120

Of this sum £3,013,323 was paid into the Local Taxation Accounts in relief of local expenditure.

The Inhabited House Duty is an imperial tax levied upon the occupants of houses, and realises about £2,000,000 a year. It is the modern representative of the more ancient hearth and window taxes. The hearth-tax dates back to feudal times, but it became a statutory tax in 1662, when Parliament voted it to Charles II. in lieu of certain other taxes and feudal rights. Abolished in 1688, it was replaced in 1696 by a tax on windows, which survived until 1851. Both taxes rested on an assumption that a test of ability to pay was to be found in the size of the house, of which the number of hearths or windows formed an index. They were found objectionable as having a tendency to cut down these utilities; they placed a charge upon prime necessaries of life, light and warmth, and the limitations they induced were injurious to health.

The Inhabited House duty was first adopted in 1778; it was repealed in 1834, but was again reimposed on the occasion of the abolition of the window-tax in 1851; it is now exacted upon all houses and business premises of a letting value of £20 and upwards. A reduced scale is applied to business premises, registered lodging-houses and farm-houses. The tax is graduated on a progressive scale:

	£20 rental, and not exceeding £40	Above £40 rental	Above £60 rental
Houses, residential . .	3d.	6d.	9d.
Public Houses, Farm Houses, and Business Premises . . .	2d.	4d.	6d.

It has been held by Mill and others that house-rent is practically a voluntary statement of income, that it represents a fairly uniform proportion of income, and may thus constitute a fair basis for taxation. House-rent does probably form a most appropriate basis for local taxation, since the expenditure of rates confers an equivalent in local services which are proportionate in some degree to the character of the house, but house-rent is not necessarily a true criterion either of income or of ability to pay national taxation. Houses are selected on other considerations, such as ideas of health, size of family, character of employment and status. Certain positions in life of a more or less public character, such as that of a medical man, demand a good address; and of necessity a much larger proportion of income is expended on rent by the classes in these circumstances than by those whose position and opportunities of employment are not influenced by such accidental conditions.

Again, the duty does not discriminate between the proportion which house-rent bears to income in different localities, town and country, the metropolis and other towns. A rich employer may be able to obtain an excellent and commodious villa many miles from town for a smaller rent than would be paid by one of his clerks or employees who must reside near his work, and who consequently pays a larger house-tax. For similar reasons the exemption of all houses with a rental not exceeding £20, in town and country alike, touches different classes and incomes unequally. Again, the House duty cannot be assessed on country mansions in any degree proportionate to the value of the property or the income of the owner. Further, the duty falls on

a first necessary of life, and with special severity upon the poorer educated classes in towns, who either feel compelled by their position to spend a relatively larger proportion of their small income on housing, or do so because they realise the importance of providing healthy homes for their families. Its tendency, therefore, is to check the investment of capital in a form which is most desirable in the interests of the community, while it imposes a penalty upon one of the most commendable forms of family expenditure.

FINANCE ACCOUNTS, 1914.

LAND TAX	£690,007
INCOME TAX, approximate yield—	
Schedule A.—Lands, Tenements, etc. .	£10,304,000
" B.—Occupation of Lands, Tenements, etc. . . .	214,000
" C.—Annuities, Dividends, etc. .	2,867,000
" D.—Professions, Trades, etc. .	27,294,000
" E.—Public Offices, etc. . .	3,223,000
Super Tax	3,339,000
	£47,241,000

From 1907 Income has been differentiated as "earned" or "unearned," the former class of Income paying at a lower rate up to a maximum Income of £3000; above this amount all Income pays at the higher rate.

CHAPTER V

INDIRECT TAXATION—TAXES ON COMMODITIES AND ACTS

In most countries a considerable revenue is derived from duties upon goods (consumable wealth), imposed at some stage or other in their progress from the condition of raw material to final consumption.

In modern times such taxation is levied in various ways: (1) by direct duties on ownership or use, such as the taxes on carriages and guns; (2) by duties on the article at its production, like the excise on beer and spirits; (3) by duties on imports and exports at a frontier (customs); or (4) by means of a State monopoly of the manufacture and sale (tobacco in France and Japan, and opium in India). To these may be added the antiquated tolls and market dues on sales or on transit. Taxation on *consumption* was in its early forms mainly direct, and was exacted from persons possessed of "movable wealth," which was evidence of their ability to pay; it was also imposed as a charge upon enjoyments and the display of wealth,[1] or as a sumptuary measure for the repression of extravagance.

[1] The tax on watches and clocks introduced by Pitt in 1797 nearly ruined the industry, and was repealed in consequence the following year.

Under the complex system of production which is the result of modern progress, taxation on consumption is effected mainly by duties on commodities which are indirect, and can generally be shifted to the consumer.

The few direct taxes on expenditure for enjoyment, such as duties on carriages, dogs, guns, male-servants, and armorial bearings, are now paid as licences. Some of these, like the carriage tax, may indirectly affect the industries concerned in the production of the taxed commodity; their tendency would be to limit the numbers in those employments if the taxes were heavy in amount. The direct taxes on enjoyments, which are mostly survivals of sumptuary duties, yield to the Treasury relatively a small amount; such duties belonged to an earlier and simpler period, when industries were smaller and modern sources of revenue were not available.

Tolls and market dues are of remote origin; they were charges for the privilege of trading in a certain locality, and for the use of roads and convenient places for sales; they fell ultimately on the cost of commodities. Similarly, licences for the privilege of carrying on certain industries, or for selling certain goods (beer, spirits, tobacco, etc.), ultimately resemble in their effects and general incidence a tax upon the articles themselves, while they also tend to restrict the number of producers and dealers; their chief recommendation is that they effect a kind of police registration of the persons engaged in these employments, which is desirable in the cases of occupations such as those of hawkers and pawnbrokers.

There is much force in the view that the most

appropriate use of licence-duties in modern times is in the relief of local taxation, for which purpose already a large proportion is paid over by the Government. Subject to the control of the State over the number and class of articles and the rates which should be adopted, taxes of this class might be assigned altogether to local purposes.

Monopolies and patents granted as privileges by the Tudor and Stuart sovereigns formed an arbitrary and irregular kind of excise, yielding small revenue to the Crown, and benefiting mostly the monopolist at the cost of the consumer. State monopolies do not now contribute to British revenue, unless the Post Office be so regarded; but in some European countries the tobacco, match, and some other State industries constitute a regular source of revenue.

The prevalent methods of taxing commodities are by excise and customs duties; these are alike in their general economic result, which is to raise prices.

Customs Duties are a very ancient form of taxation; traders entering a country were charged a toll at the frontier for permission to enter; the tax was a kind of payment for the privilege of trading, for safe passage, and also for the use of roads, etc. The assumption was that the incidence was upon the trader, who, however, recovered the tax in the sales of his merchandise. In England tolls or port duties, both on imports and exports, became very early a regular source of "customary" revenue; and the duties were paid originally in kind, *e.g.*, one cask of wine out of a cargo of ten. They were afterwards converted into regular money payments.

Prisage, a duty on imported wine, was paid to King

Richard I.; John received also import duties on wool, salt, and fish, and export duties on wool and leather, at established rates.

The wars of Edward I. and Edward III. added to the tolls on merchandise called "Ancient Customs." The permanent revenue of the Crown from these sources was fixed by the "Statute of the Staple" in 1353 to consist of (1) the Ancient Customs on wool and leather; (2) the New Customs levied on foreign merchants; (3) prisage of wine imported by native merchants, or tunnage paid by the foreign exporter; and (4) poundage on goods imported or exported. In 1329 the customs were farmed for £20 a day, and yielded £6260. In 1411 they were estimated at £30,000; at the accession of James I. they amounted to £127,000; by 1650 the yield was £500,000, and in 1688 it had risen to £1,000,000. In 1671 a Board of Commissioners was first appointed to manage the customs.

Under the influence of Mercantilism, import duties were increased and exports were encouraged, with the object of securing a favourable "balance of trade," meaning a net import of gold or silver. In course of time this system developed into a policy of employing import duties to protect and foster home production. This practice led to retaliation and tariff wars between countries, and thus the protectionist system was strengthened and came to be regarded as a patriotic policy. Customs duties were no longer regarded purely as a source of revenue, but as instruments for attacking the trade of foreign countries. This doctrine held sway in England until 1846, when the Free Trade agitation ended in the abolition of

the Corn Laws. Meanwhile, a vast machinery for the administration of the customs and the repression of smuggling had been called into existence, which by its expense greatly curtailed the net revenue derived from the taxes. The original aim of a customs duty was lost sight of in the delusive patriotism of "striking at foreign trade," and "supporting home industry," and retaliating on the foreigner. Pitt commenced, in 1784, a reform of the complicated system of customs and excise by simplifying the methods of collection and reducing the taxes, but the outbreak of the war with France led to their reimposition and increase; high duties were placed on all consumable articles—raw materials, food stuffs, and manufactured articles; at the end of the war about 1200 different articles were taxed, of which the majority produced little revenue. In the year 1800 import duties yielded £8,144,380. At the peace of 1815 the income-tax was repealed, but the duties on consumption were retained, and the protectionist doctrine was reaffirmed by the imposition of a duty on foreign corn, arranged on a scale so as to preclude its admission into Great Britain until home prices reached 80s. a quarter.

A petition from the merchants of London in 1820 for free trade was the first step in introducing a fresh period of reform. Between 1823 and 1826 Huskisson, who was the President of the Board of Trade, reduced many duties, simplified the code of customs, and so regulated the duty on corn as to lower the tariff price limit to 73s. A financial crisis arising out of over-speculation, however, checked the movement and suspended fiscal reform for some years.

In 1841 the task was resumed by Sir Robert Peel

the tariff then included duties on 1150 articles, the majority of which were unproductive, while some, by their prohibitive character, yielded little or nothing. Peel persistently aimed at simplifying the method of taxation, and at reducing the cost of collection. He abolished prohibitive duties, reduced considerably the duties on raw materials and partly manufactured goods, and in a less degree those on manufactures, and as a means of tiding over the period of reform he re-introduced the income-tax.

Peel's policy was a definite advance towards free trading, although he retained the duty on corn, regarding agriculture as a national industry of special importance. His complete acceptance of free trade followed quickly on the Irish famine of 1845; the Corn Laws were repealed in 1846, with the exception of a registration duty on corn, which survived till 1869. An Act for the abolition of the Navigation Laws was also passed and came into operation in 1849.

The reform of taxation was continued by Mr Gladstone, who completed the establishment of the free trade principle, and also removed several vexatious forms of excise, including the duties on building materials (1850), and on soap (1853). He repealed the special taxes on advertisements in 1850, the duties on newspapers in 1855, and on paper as a material in 1861; butter and cheese were relieved in 1860; the tea duty was lowered from 1s. to 6d. in 1865, and hops were freed in 1862; the sugar duty was repealed in 1874, and the malt duty was converted into a beer duty in 1880.

Briefly, the chief outcome of the fiscal legislation of the

nineteenth century was to render the British tariff purely a financial and economic system. Customs duties are now non-protective, and are collected on only about a dozen different kinds of articles. They are derived mainly from luxuries, are economically levied, and are very productive. These effects are seen in the returns of the revenue from customs in 1913-14 The chief yield (£18,289,603) is from tobacco; wine, spirits, and beer give £5,590,174; tea yields £6,507,729; sugar, £3,278,544; coffee, cocoa, currants, raisins, figs, etc., contribute £1,075,598; a few other items produce about £430,000, making a total of £35,668,890. As a group of taxes levied on articles of ordinary consumption, mostly above the rank of necessaries, these customs duties can be relied upon to provide a fairly steady revenue, any falling off in the yield in one direction being usually compensated by expansion in other directions. The total volume is, of course, subject to moderate fluctuations, arising from the causes which affect the general prosperity and consuming power of the nation.

A few items in the list call for special comment.

Under the pressure of war the duty on tea was raised in 1900 from 4d. to 6d.; increased in 1904 to 8d. per lb.; in 1914 it stood at 5d. per lb. The duty on sugar (repealed in 1874) was reimposed in 1901 on a graduated scale, varying from 24d. to 50d. per cwt. The tax (1914) varies from 10d. to 22d. per cwt., according to the degree of polarisation. Sugar is a necessary article of diet, and it is also an important raw material in the manufacture of jam, pickles, beer, and blacking. The average annual consumption of sugar in Great Britain amounts to

nearly 90 lbs. per head, and the tax involves therefore a real sacrifice. There is something to be said for a duty on sugar in Great Britain, as for a salt-tax in India. Adam Smith regarded a tax on sugar as a desirable tax, and one which should be retained to touch the lower classes, and it certainly succeeds in reaching the classes who do not pay income-tax. Also sugar is too bulky a commodity to induce smuggling, and, as it is an article of general consumption, a small duty[1] upon it raises a considerable revenue.

During the seventies there was much agitation for "a free breakfast table," that is, the removal of duties on tea, coffee, and cocoa, as well as on sugar. If, however, these indirect taxes be all abolished, some other means, such as an extension of the income-tax, will have to be devised to reach the classes who might otherwise escape taxation altogether; for the sound maxim that all should contribute in some degree to the expenses of government must not be forgotten.[2] The duties on intoxicants do not touch abstainers, and the tobacco duty cannot touch non-smokers; the time seems hardly ripe for the remission of all other indirect taxes, since it would require a much higher standard of public morality than that yet attained to secure that all contributed equitably by direct methods alone.

[1] This argument assumes the duty to be paid on all sugar alike; the question of bounties and the effects of the Brussels Sugar Convention are not here under consideration.

[2] Professor Jevons insists:—"The more carefully and maturely I ponder over the problem of taxation from various points of view, the more convinced I always return to the principle that all classes of persons above the rank of actual paupers should contribute to the State in the proportion of their incomes."—"Principles of Economics," a Fragment, published 1905.

(2) The reimposition of a duty upon imported corn in 1902 (repealed, however, after one year) was in effect a return to protection, and had not the same defence as the sugar duty. It was supported by the argument that the tax would "broaden the basis of taxation"; but without doubt a tax on bread, which is the cheapest, most common, and most nourishing food, must fall with greatest severity upon the poor, and it has necessarily the defect of all duties upon imported articles which can also be produced at home. Such taxes yield a revenue only on the imported portion of the supply, while they raise the cost of the whole supply; the consumer pays a higher price for all, while the tax is derived only from the imported portion. Taxes which produce this result cost the community much more than they yield. Further, they always tend to become merely protective duties, shielding the industries they favour from foreign competition, and benefiting only the persons directly interested in those industries, while inflicting a burden upon the whole community. Moreover, they maintain less efficient modes of production by removing the stimulus of healthy competition and thus guaranteeing the producers of the protected article a monopoly in their own country; they are, in fact, devices for keeping up artificial prices, and are wholly ineffective and uneconomic as taxes for revenue.

This is not the place to examine at length the arguments for protection, but it may be pointed out that imports are bought with exports, and that they cannot be obtained without the payment of an equivalent in some form of goods or service. It is the highest interest of a country to employ its capital

and labour most efficiently, *i.e.*, in the industries for which it is best adapted by its natural conditions and the skill of its people; with the products of these industries it can purchase abroad the commodities which it can produce less efficiently. Free trade is only an application of the simple and obvious principle that the most efficient modes of production yield the largest wealth. And the richer the community becomes by adopting the most efficient methods, the better will it be able to contribute to taxation in other ways. No duty which is protective in its operation can become a productive revenue-tax; the two aims are incompatible. In so far as a tax protects it yields no revenue, and in so far as it yields revenue it does not protect the industry.

Import duties, as a rule, fall upon the countries which impose them; the only case in which the foreign producer could be compelled to pay the whole duty would be where an importing country is the sole market for a commodity which the exporting country must continue to produce; such a case is rare, if it exists. Countries are not generally so restricted in their industries, and, moreover, exporters have the whole world for their market; and when their foreign market for a product is made unprofitable in any country, they seek other outlets for their energies and commodities. Thus their trade is diverted to other countries. Also if a country attempts to exact toll from a customer country, the latter most frequently retaliates by other duties, and the result is detrimental to both. An expensive machinery is set up in both countries for endeavouring to extract duties from each other—a game of mutual waste and futility,

destructive of trade and productive of mutual ill-will.[1]

Import duties and excise duties are alike taxes upon consumption; they are at present very convenient methods for raising part of the revenue of countries, but they should be employed purely for revenue, and the scheme of duties should be carefully ordered so as to be economic in collection, productive in every case, and well balanced, and they should not be imposed upon primary necessaries of life.

The tariffs of most countries are not designed purely for revenue, but with a view to the protection of home industries; yet, in the removal of barriers between different states and the extension of the areas of common taxation in many countries, it is hoped that the loss from protective taxation is being realised, and that ultimately these injurious systems may disappear. In the United States protective duties are not permitted to be levied by one state against another; every new area admitted into the union is brought under the common tariff. Germany has extended her Zollverein, so as to make the Customs Union commensurate with the empire. The Australian

[1] The effects of retaliation are well illustrated by three comparatively recent European tariff wars:

(1) Between France and Italy for the years 1888-98: during the first eight years French commerce with Italy fell from 499 to 240 millions of francs.

(2) Between Germany and Russia from 1892-95; in this interval German trade with Russia fell from 723 to 487 millions of marks.

(3) Between France and Switzerland from 1892-95; the trade of France with Switzerland was reduced from 337 to 180 millions of francs.

In all these cases commerce began to revive immediately after retaliation was abandoned.

Commonwealth has replaced the customs of the several colonies by one general tariff. Other states, France and Italy, have removed restrictive duties within their areas. Even the movement for a British Imperial Customs Union has the one merit of seeking to remove the impediments to trade which exist between Great Britain and her Colonies, although by some methods proposed it would inflict a greater loss by setting up restraints on commerce with other countries. These movements seem to point to a period, however remote, when the world will become one economic area for trade, when nations will only impose taxes on imports for economic purposes, and will avoid the waste and expense which ensue from the prevalent tariff systems.

Export Duties formed part of the "Ancient Customs," and were a feature of the old system of taxing the operations of trading for purposes of revenue. Export duties appeared definitely in England under Edward I.; for several centuries duties were levied on exports of wool, hides, and leather, and later upon manufactures of wool and linen, and also on corn and coals as "Customs Outwards." The tax on exported wool was levied with the further object of keeping the raw material at home to encourage the woollen industries. The Mercantile theory, which favoured exporting with the idea of obtaining a balance in money and even gave bounties on exports with that aim, did not succeed in suppressing these duties, and it was not until Peel's reforms of 1842 that export duties were removed. The duty on coal was retained until 1845. Export duties do not appear again in the British tax system until 1901, when the coal duty was reimposed at 1s.

per ton to aid in raising funds for the South African War. This duty, repealed 1st November 1906, realised in 1904-5 the sum of £2,052,774. It is a matter of much difficulty to determine with accuracy the ultimate incidence of this particular export duty; the burden has been variously assigned to coal-owners, miners, shippers, and foreign purchasers.

In the case of an export duty on a commodity of which there are other sources of supply or for which substitutes can be obtained, the rise in price consequent on the export duty would induce foreign customers to seek for supplies from other competitors; this would reduce the export of the country imposing the duty, and the trade would either suffer a loss in reduced business, or be compelled to pay part or all of the duty by lowering the price to the foreign client. In either case various classes, directly or indirectly interested in the industry, would be affected adversely; meanwhile a fall in home prices might stimulate the home demand in a slight degree. If the tax imposed be so small that the rise in price does not influence the foreign demand, the foreigner may pay the tax. But it must be remembered that the foreign supply-market of any country for an article which is not a monopoly is wide, and, in fact, may comprise the whole world outside that country; competition over so large an area will stimulate production in other countries, and render it difficult for any one country permanently to extract an export duty on an article of common production from all its customer-countries. If such a plan were possible no single country would be allowed to monopolise the privilege, but the practice would be adopted generally; this, however, is absurd. No country can compel other

countries to pay its taxes by selling to them its ordinary products at an artificial price.

The only case in which a country can recover an export duty from a foreign purchaser is that of the monopoly-supply of a necessary, or of an article much in demand, for which there is no substitute. In such a case, if all the producers in the taxing country combine to put up the price so as to cover the tax, the duty may be obtained from the foreign buyer; if, however, there be competition for the foreign trade in the taxed article amongst the sellers in the taxing country, or if the foreigner can reduce his demand, part or all of the tax will be paid by the exporting country.

As regards British steam-coal, it is impossible to say with certainty on whom an export duty would fall; the circumstances which govern its demand abroad are exceptional: it is said to possess monopoly value by its peculiar quality, and as the demand is mainly for naval purposes the foreign importer would probably pay the tax. India recently afforded a good example of revenue derived from a monopolised export, viz., a superior opium produced under regulations which rendered it a government monopoly. India had peculiar advantages for its production, and there was a large demand in China, at a price which yielded a profit to the government; China was the chief customer, and she accordingly paid the duty. In 1907 the British Government, on moral grounds, adopted a policy of gradual reduction of the opium trade, which has been so successful that the export ceased in 1915. During the fifteenth century, at the period when British wool had a monopoly value and was greatly in demand in Flanders, the export duty on British wool was doubtless paid by the Flemish importers,

but they recovered it in the price of their exported cloth, which had then a great reputation. Camphor from Formosa, and cinnamon from Ceylon, are examples of monopolies, which may yield a revenue by means of an export duty. Brazil imposes an export duty on coffee, Chili on nitrates; owing to the circumstances of production of these articles the duties are probably paid by importers. In the case of ordinary materials and manufactures an export duty raising prices would soon destroy the export trade by transferring it to rival countries; this method of raising revenue is therefore available in but few cases, and these are cases of monopoly.

Excise Duties are a system of inland duties imposed upon articles of consumption. They are indirect taxes upon home products, introduced into the English fiscal system under the Long Parliament, and copied from Holland. The term *excise* literally implies a portion cut off from a commodity, and suggests that the State in effect takes this portion for its share. In its modern use, the term excise is applied to all taxes on commodities produced in a country, in contrast with the *customs* duties which are levied on goods at the frontier. The excise was adopted in 1643 to raise funds for the Civil War; it was imposed first on beer, cider, and perry, and later on other consumables, food and clothing. The tax was retained at the Restoration, and was extended to many kinds of goods. In his celebrated "excise scheme" of 1733, Sir Robert Walpole included much more than excise duties. He sought to reorganise both the excise and customs duties and to effect economies by simplification and co-ordination, to put a check on fraud and

smuggling, and by providing bonding-houses for warehousing imports to remove obstacles and encourage trade; the scheme was economic in aim, and tended in the direction of free ports and free trading. His projected reforms were defeated, however, by political opposition and misrepresentation, and further attempts at financial reform were delayed until Pitt's fiscal measures were introduced. The excise proper, which at one time was imposed on many classes of materials and goods, is now levied almost exclusively upon intoxicants, and a customs duty upon any imported article which can be produced at home is met by an equivalent excise on the home product. The yield from inland revenue on spirits and beer in 1914 was £33,162,747.

With the Excise or Inland Revenue are also included the *Railway Duty* (£288,368) and the revenue from *Licences* (i.) for dogs, carriages, guns, game, male servants, armorial bearings, and (ii.) for permission to follow certain occupations:—those of publicans, brewers and distillers, tobacco dealers, auctioneers, pawn-brokers, dealers in gold and silver plate, hawkers, pedlars, etc. The total amount yielded by licences in 1914 was £5,371,168. Of this sum only a small part went to the account of imperial revenue, far the larger proportion being paid to local authorities in aid of local taxation.

The general result of an excise, as of a customs duty, is to impose an indirect tax on the consumer to the amount of the duty. But there are secondary effects, and many taxes have been repealed not so much on account of the pressure of the duties as on account of their indirect effects upon industry. If the charge be

made upon a process, or at an early stage in the manufacture, or upon a material or agent, it involves additional expense to the producer, which will become an element of cost to be recovered in the sale; hence it is an economic maxim that duties on commodities should be levied only on the finished article and never on the raw material. Taxation should touch production as lightly as possible, and should neither stifle the industry nor tend to make it a monopoly. When a choice has to be made between two taxes, the article which stimulates industry should be exempted.

The aim of taxation is revenue; by confining indirect taxes to few articles the cost of collection is diminished; the selected articles should be, however, sufficient in number, and of such a kind as to touch all classes, and to reach in a moderate degree those who do not contribute to direct taxation. The articles suitable for taxation vary with the circumstances of a country and the habits of the people; tea and coffee, beer, spirits, and tobacco[1] are very suitable commodities in Great Britain, while a salt-tax is almost the only form of taxation which can touch the masses in India. The rule that necessaries should be free and that indirect taxes should fall only on luxuries is thus a counsel of perfection not always attainable; in a country where three-fourths of the population consume no luxuries, the majority can only be taxed through necessaries, and in these circumstances there is no hardship in such a tax.

There is always a limit to the productivity of any

[1] Immoderate smokers and drinkers contribute heavily to taxation; the consumption is of luxuries and it is optional. This taxation raises revenue but imposes no economic burden.

particular tax; by this is meant that a heavy tax may reduce the revenue-yield by discouraging consumption. The point of profitable taxation is a matter of importance to be ascertained by government; financiers by experience become able to forecast the probable effect of a small addition to the duty upon an article; this is not by any means a constant proportion, since the elasticity of demand is variable, and much depends upon the state of prosperity and the habits of a people, while the conditions of trade are also subject to many causes of fluctuation.

The method of *ad valorem* duties or taxing commodities in proportion to value is desirable; but it is not easy to carry out, and it is not adopted to any extent in Great Britain. The tax on tea, for example, is at the same rate on all qualities alike, while an *ad valorem* tax would be rated according to the quality of the tea, as expressed in price per lb. It is objected that since a uniform tax per lb. is heavier on the cheaper qualities, therefore its incidence is greatest on the poorer classes of consumers, and that the tea duty inflicts an injustice; but the practical difficulties of *ad valorem* taxation are so great that it could not be applied to tea with any approach to justice or economy; the attempt would involve great expense, would lead to evasion, and would favour the consumption of the inferior kinds of tea. It must be recognised that no single tax can secure equity, and that in the British system compensation for this defect is found in the aggregate of the taxes; those who pay relatively most on tea escape direct forms of taxation altogether. In some cases an approximation to taxation in proportion to value is possible—*e.g.*, spirits

and beer are graded according to their strength, which can be easily tested; similarly sugar pays according to the degree of saccharine matter.

Taxes on the *transfer of wealth* are taxes on actions or processes; they are an interference with the freedom of business and exchange, and so far tend to check activity and impede progress. They may in some instances be regarded as fees for services rendered, but in most cases they are a tax on the movements of capital, and fall on a limited class which is very active and very productive. They are defended as "not felt," as falling mainly upon speculative profits, and as not being sufficiently heavy to interfere materially with trade. They are convenient in collection, and the yield is such as not to attract great attention, while their incidence is upon the accumulated wealth of the comfortable classes; thus, though they cannot be treated as a large or important factor in taxation, they may, if not excessive, contribute something in a composite system towards equitable distribution of taxation by imposing an additional charge on wealth. In so far as they restrict transfer they interfere with efficient action and may influence the direction of investments of capital; the incidence according to circumstances at the time may be upon either the buyer or the seller, or it may be shared.

Stamp Duties are not a special class of tax, but a mode of collecting various kinds of revenue by a process of registration. They are duties upon documents or instruments essential to render certain proceedings legal. This kind of taxation is sometimes self-collecting, sometimes effected at a public office, and it is

enforced by requiring the stamp record for legality; such taxes are easily graded on an *ad valorem* basis. Stamp duties are imposed on different kinds of acts —the sale of property, succession to estates, deeds of gift, leases, settlements, life insurances, contracts of many kinds, agreements, sale of stock and shares, etc. Stamp duties are also paid for licences granting permission to follow various occupations — those of solicitors, bankers, conveyancers, etc. This initial outlay tends to limit the numbers entering those professions; it is an element of expense, and becomes a factor in the charges for the services of those classes, and thus ultimately falls on their clients.

Stamp duties were copied from Holland in 1694. They were much extended during the following century, and especially at the time of the war with France; modified and consolidated after 1815, they were revised and improved in method in 1853, when Mr Gladstone adopted the penny receipt stamp. The system was again simplified and reduced to a code by the Stamp Act of 1870. The various stamp duties now yield almost £10,000,000 per annum, and affect a considerable list of transactions. They are grouped under four heads as relating to (1) Bills of Exchange and Promissory Notes; (2) taxes on receipts, cheques and drafts; (3) transactions relating to property—sales, settlements of money, leases, and securities for money; (4) other deeds and instruments concerning wealth.

Some stamps are merely a convenient method of taxing a commodity; such are the duties on patent medicines and playing cards, which fall ultimately upon the consumer, and in so far as they tend to check the demand they limit the capital employed

in the industry. The incidence of taxes on receipts is most probably on the receiver, who can at the moment of payment easily afford the tax, while it is too small to be perceptible.

Taxes on the *sale of immovable property* (land and houses) have been criticised as imposing restraints upon the free exchange of this class of wealth, and as hindering its development by preventing it from passing readily into the hands of those who are best able to render it productive; they were regarded by Mill as a fine upon the seller who usually parts with his property under some necessity and therefore incurs the loss of the tax. The incidence of a tax on transfer is doubtless determined by the relative urgency of the seller or the buyer at the time; the price is fixed according to the law of reciprocal demand, and is much affected by the degree of publicity and consequent extent of the market. As a tax paid by the buyer is an addition to the price, it reduces the amount of his offer, and thus in ordinary cases the tax is probably shared between the buyer and seller; in any case it is a tax upon accumulated wealth which acts as a check upon the facility of purchase, and by its friction tends to reduce the amount of business. Land is the raw material of agriculture, and an essential factor in all industries; taxation on its employment is, therefore, like the taxation of all raw materials, undesirable. Fees for registration and for legal charges incurred in the sale are necessary, and registration is desirable, both in the interests of the dealers and of the community. Charges for this service are not strictly taxes, but the stamp duties on transfer are far in excess of payment for public service.

STAMP DUTIES, 1914.

Deeds and other Instruments . . .	£4,100,909
Deeds—Penalties	5,953
Bonds to Bearer and substituted Securities	1,005,822
Companies' Capital Duty	704,980
Contract Notes (above 1d.) . . .	311,803
Loan Capital Duty	21,218
Foreign Certificates	28,928
Share Warrants.	150,160
Bills of Exchange	1,035,806
Compositions for Duties on Bills, and Notes of Banks of England and Ireland and of Country Banks . .	124,432
Licences and Certificates	175,154
Life Insurances	111,218
Marine Insurances	189,637
Receipts, Drafts, and other 1d. Stamps .	2,016,830
	£9,983,563

The Railway Duty is a tax upon communication and transport. In Great Britain the duty is 2 per cent. on fares above 1d. per mile on the urban passenger traffic, and 5 per cent. on country traffic; fares of 1d. per mile or less are free from taxation. The tax yielded £288,360 in 1914. The railway duty is a special tax upon one form of private capital, since railway companies, like

other industries, pay both income-tax and local rates. The tax is a survival, and is inherited from the old 5 per cent. duty on stage coaches; it is supposed to be justified as falling upon the holders of a transit-monopoly. This defence of the tax, however, involves a contradiction, since the lower fares are specially exempted from taxation in order to confer a boon upon the poorer passengers, and this exemption must rest on the assumption that the passengers would otherwise pay the tax. The incidence is difficult to trace, and is not uniform, but it probably falls upon the ordinary shareholders in most cases.

When the railway is in competition with other railways, or with other modes of transit (sea, canal, tramway, etc.), to that extent the monopoly is limited; the company endeavours to secure its share of the traffic, and cannot therefore place any special duty upon the passenger without the risk of inducing him to adopt the alternative mode of transit. But when the railway has practically no competitor, and its traffic is more or less assured, it can adopt a higher scale of charges, and it may shift the duty to the passenger as an extra charge, so long as it does not drive him away by raising the price above the marginal utility of the service. Duties on transit are common on the Continent. In France a railway duty is levied on goods and on passengers, but French railways are largely financed by the State, which guarantees the interest on the shareholders' capital.

Taxes on transport are uneconomic; they tend, like duties on commodities, to raise prices, to check business, and reduce consumption; and they create economic

friction, which is always an obstacle to trade. The British railway passenger duty is a relic of an antiquated system ; it raises little revenue, and is not based upon any scientific principle. Government regulation of railways is necessary, and can be effected by other means ; but duties on transit cannot be regarded as economically desirable in an industrial and commercial country ; they hinder the natural distribution of wealth, and, like any other cause of expense, they tend to divert trade into competing cheaper routes ; they are particularly undesirable in a country which desires to cultivate an *entrepôt* trade, or which is engaged in the business of a carrier by shipping. In such a country any obstruction to free movement or anything which, like heavy dock charges, increases cost is injurious, and may be fatal to the shipping enterprise by diverting its trade to rivals.

The Post Office affords a peculiar source of revenue. For the year 1914 its earnings (excluding telegraphs) were £23,948,785, and its expenses £2,728,680.

A high rate for postage, telegrams, or telephone messages is of the nature of a transit duty, and is both impolitic and uneconomic, since it tends to restrain communication and to reduce business. The British Post Office charges are, however, very small, and the net result is a surplus revenue of £21,220,105. This mode of obtaining revenue has been objected to as a tax upon correspondence ; it is defended as a simple means of raising a considerable amount by a method which has no appreciable effect on business, and which practically does not touch the poorer classes at all.

It is questionable whether the Post Office net revenue can properly be regarded as a tax, it is rather a case of

trade-profit. The postal service is a monopoly conducted by the State; it satisfies, perhaps, better than any other public undertaking the conditions requisite for a State business enterprise, viz.: simplicity, routine method, the absence of risk, and the greater efficiency of a single organisation. The capital is large, and consists mainly of public buildings and vehicles, and, in the case of telegraphs and telephones, of wires, poles, and mechanism. The functions of the Post Office include not only transmission of letters, papers, parcels, and telegrams, but various other tasks for which it forms a convenient instrument, such as the collection of taxes on guns and dogs, the sale of stamps for receipts, a State-banking system for small deposits, and the transmission of small debts and credits, the sale of government stock, etc. Some of these services are not very productive, and Post Office banking involves a positive loss since the rate of interest paid by the State is more than it receives, when expenses of staff are taken into account. It seems impossible to assign the Post Office net surplus definitely to any one of its many functions, though far the largest portion must be derived from profits on its primary business of letter-carrying, and that mainly in urban districts since the expenses are relatively much less in towns than in rural districts. In any case a substantial net income is derived from the whole group of business transactions; the charge for letter transit is exceedingly small, while the gain to the nation is considerable, and the advantage of a reduction in postage would be trivial to the masses; the burden, if any, is widely diffused; it is fairly equitable, and it cannot be said to restrict communication in any degree; finally, the surrender of

the surplus would entail the necessity of some other method of raising revenue to that amount.

To the duties of the Post Offices was added on 1st January 1909 the payment of Old Age Pensions; and on the 1st January 1912 the system of the National Telephone Company was placed unde the control of the General Post Office. The Insurance Act (15th July 1913) was a further addition to those duties.

The *Telegraph* and *Telephone* services have each involved a large initial outlay of capital, and cannot be regarded directly as sources of revenue, but they yield an immense convenience and economy of time and labour to the community. Having regard only to cost of *transmission* in 1914 the Telegraph showed a balance of £3,071,170, and Telephones £6,560,315, on the year's working. Their public utility is their justification, and this is incommensurable.

It remains merely to mention several other small items of national income which are not derived from taxation. *Crown Lands* contribute £530,000; these are regarded as State property devoted to a special purpose. In early times the major part of the royal revenue was derived from landed property; as has been shown, this source of income was reduced by the extravagant generosity and injudicious expenditure of some of the sovereigns; but other sources of income were found, and grew more productive. From the accession of William III. it became the practice to charge the expenses of Royalty upon a more permanent fund called the "Civil List," for which an amount is voted at the accession of the sovereign. At the accession of George III. (1760) the amount of the royal income was increased owing to the surrender by

the King of the Crown revenues from land; these lands have since been managed by a department of State for woods, forests, and land revenue.

Another interesting item of national revenue is the income derived from an investment of £5,000,000 made in *Suez Canal Shares* in 1875, now valued at £34,929,000, and which for the year 1913-14 yielded a dividend of £1,246,379. Sundry loans made by the British Government to Nigeria, Greece, and a few dependencies, paid during the year 1913-14, as interest and repayment of capital, £1,579,972.

Under the head of *Miscellaneous Revenue* for the year 1913-14 are receipts amounting to £2,303,924. These comprise fees paid into the Courts of Justice, and for registration of patents and stamps. Profits on the Mint amounted to £800,674; the Bank of England contributed £187,046 mainly from profits on the issue of uncovered notes. Receipts from various departments and sources, including £828 for Conscience money and £10,000 from the Isle of Man, make up the remainder.

CHAPTER VI

INCIDENCE OF TAXATION

THE problem of the incidence of taxation is the mode of its distribution; it is an attempt to unfold and explain the various effects of a tax.

Real incidence points to the ultimate burden of the tax in contrast with its first or immediate incidence. The effects of a tax are often very complex; shifting or repercussion moves the burden on, sometimes quickly, to a second person; in other cases it is distributed slowly and may affect various interests. Shifting in a greater or less degree is general in the case of taxes on commodities and operations.

Taxes are shifted in various ways, and to pursue the incidence is often perplexing.[1] The uncertainty constitutes one of the difficulties of satisfying the canon of equity. Some taxes are shifted fraudulently by evasion, that is by avoiding the payment, as by giving a false return of income, or by smuggling to escape an import duty. Again, the effort to escape from the

[1] The difficulty of tracing the exact incidence of a tax is so great, owing to the complexity of the circumstances, that it has been proposed by Dr Cannan to dismiss the term "incidence" altogether, and confine the investigation to "effects"; this is in reality all that can be done, but the term "incidence" has a prescriptive currency, and it has also a useful connotation

burden of a new tax sometimes leads to the discovery of a substitute for the commodity taxed, or to an improvement which cheapens the cost of production, or effects a gain by an economy of waste power or material, possibly exceeding in value the amount of the tax. This process is not properly a case of the shifting of a tax, but is rather a new step in economic development and one of the many forms of progress.

In the economic sense "shifting" is passing on the tax to another person, as the importer passes on an import duty, and the distiller the excise duty. Often by the mere play of economic forces a tax is in part passed on, a portion being borne by the producer, and the remainder being borne by the consumer or distributer. In some instances even more than the tax is exacted from the consumer, since the advance of a tax becomes an outlay of capital which, like the other elements in capital expenditure, is expected to bear interest.

In the mode of collection of sundry taxes, shifting or transfer is designed. It is expected that customs and excise duties will be paid by the consumers of the goods; the tax is levied upon the importer or producer for the convenience of collection. In other cases the shifting is not foreseen, or it is greater or less than was contemplated, and touches interests not intended to be affected by its imposition; hence the dictum that "the evil of many taxes is in their indirect effects"; since they may unintentionally inflict hardships on individuals, or be hurtful to production.

A tax may be imposed at such a rate as to add to the customary selling price of an article a fraction which will cost the purchaser of small quantities more than the tax; the manufacturer or dealer will sell the article

at a price—the nearest fixed unit which will give him a profit that covers the tax; thus the consumer pays more than the tax, while the Treasury obtains only the tax as revenue, and the dealer or middleman gets the excess as profit:—*e.g.*, an additional tax of 6d. per lb. on tobacco might add ½d. to the selling price per oz., so that buyers of less than 2 oz. at a time would pay increased duty at the rate of 8d. per lb. Or it may be that the effect of an additional tax is to reduce demand; the producer or seller is then compelled to suffer, either in a reduction of business, or by bearing part of the tax. In the simplest case of a duty on a commodity, paid primarily by the maker or importer, the tax will tend to be moved to the consumer; but it is impossible to ascertain with absolute certainty on whom the tax does really fall in every case. Incidence is an intricate and not absolutely determinable problem. The analysis is performed by examining each species of tax separately, and though for concrete cases we get only approximate truth, yet the conditions can be stated and an abstract doctrine of tendencies can be established for each class.

A new tax has both an immediate and an ultimate effect. Its immediate incidence causes a disturbance, which is followed by some movement towards readjustment; the nature of this adjustment and the time it requires depend upon the freedom and extent of competition, and upon the elasticity of supply and demand. Some theories of taxation deal only with *ultimate* results and ignore the immediate effects, but meanwhile taxes have to be paid, and their *immediate* effects may operate disastrously before adjustment is attained, for "taxes tend to stick where they fall": *i.e.*,

it takes time to move them on, since economic forces often operate slowly.

The ultimate effect may be very different from the immediate effect. When the tax is shifted from the first payer to the distributer, who passes it on to the consumer, it is called forward-shifting; when it affects a previous agent in production or a subsidiary industry, it is called backward-shifting; if it causes a rearrangement in some of the factors of production and distribution it is said to be diffused. Observation of such cases led to the Diffusion Theory, which maintains that all taxes, no matter how imposed, are ultimately spread equitably over society by a process of accommodation, which is accomplished through the action of competition, and that the burden of taxation is thus fairly distributed by a portion being passed on until the tax is diffused over the whole community in proportion to ability to pay.

This view rests solely upon the consideration of taxes on commodities, which are indirect, and it exaggerates the effects of diffusion even as regards these. But a large part of taxation is direct; it falls upon income, upon estates at death, and upon acts and operations in which there is little or no diffusion. And it is not a matter of indifference on whom a tax is primarily levied, as it would be if the ultimate effects were always the same. All proposals for new taxation encounter opposition from some classes who feel assured that they will be special sufferers thereby, while the same proposals are easily tolerated by those who deem themselves exempt from their operation. If it were correct that the income-tax which is levied upon a limited class of the community is diffused over all, then it would be

wiser to exact it from all classes directly, and thus avoid the loss which must be incurred by friction in the economic transfer; further, the direct demand would secure the moral advantage of bringing home to the real payers the effects of extravagance in national expenditure. But a universal income-tax would be resented as unjust to labourers, and indeed the chief cause of the popularity of the income-tax is the fact that its incidence is upon a limited portion of the community only.

It is certain that some kinds of taxation impose heavier burdens than others, and pressure of incidence can be modified by adopting different methods. If it were not so, and if all taxes were diffused equally, much thought expended upon legislation in order to secure an equitable system of taxation has been wasted labour.

Perfect adjustment of taxation is unattainable; some taxes are not shifted at all, others are distributed, but according to no principle of equity; the conditions of their transfer and their indirect effects constitute the problem of incidence to be investigated. The ascertainment of these tendencies may avert injury. Without it the hasty imposition of a tax may bring injustice and cause economic loss to small industries by stamping out some and crippling others, for a small margin often determines economic existence. But the aim of taxation is revenue, not repression of industry, and a tax that entails the latter consequence fails doubly in its object.

Incidence must be studied in its effects upon consumption and demand. A tax imposed upon a commodity is generally expected to be added to the price, and to be recovered ultimately from the con-

sumer; this effect presupposes competition at all stages, and also the perfect mobility of capital. The assumed economic procedure is that the tax reduces the profit of the producer or seller, that he struggles to recover his normal rate by a rise in price, and so passes on the charge to the consumer. This is doubtless the general tendency, but there are many obstacles to perfect competition, and the effect upon demand of a rise in price will also vary with the nature of the article.

I.—If the taxed article be a necessary or a relatively small item of expenditure the tax may not affect consumption; in such a case the demand for the taxed article is *inelastic* so that its production and sale are not affected, and the tax is paid by the consumer. But since the increased cost of obtaining the same supply as formerly will reduce the general buying capacity of consumers, it will affect their demand for other articles; the effect of the tax is thus, in fact, transferred to the producers of those various indefinable articles by a reduction in the demand for them, which will tend to lower their price. Such results would follow a rise in the price of bread, caused either by natural scarcity or by the imposition of a tax. Many families, in order to obtain their usual supply of this prime necessary, would be compelled to cut down their purchases of other less necessary articles; the incidence of such a tax is, therefore, widely diffused—that is, not only do purchasers of bread suffer in a diminished power to buy other articles, but the producers of those other articles suffer from that diminished demand.

II.—But if the taxed article be a commodity for which there is a substitute or which is not a necessary, an attempt to recover the tax by a rise in price will be

followed by a reduction in demand, which will throw part of the burden of the tax on the producers by a diminution of their business. The producers will then either revert to the former price and thus bear the tax; or they will strive to keep up an increased price; in either case, those who are producing the article in the circumstances of least advantage and making only a marginal profit will suffer most, and they may even be driven out of the field, thus restoring the balance with a diminished consumption; the surviving producers, owing to the consequent increase in their business, may not lose. Again, there are usually many stages in production, and numerous grades of intermediaries before consumption; and if competition be imperfect at any one of these stages, or in some one grade of distributers, the weak members will suffer; but if some one of the intermediaries (as, *e.g.*, an importer or dealer) has a monopoly, he will be better able to pass on the burden. In the case of a group of commodities which are alternatives or substitutes, the imposition of a tax on one member of the group may, by reducing its demand and increasing the demand for others, tend to cause a rise in their prices, *i.e.*, to spread the tax over all.

III.—If the article taxed be a producer's or dealer's monopoly (the case of trusts and combines) and the article be not a necessary, the tax must reduce the profits of the seller on the supposition that the price previously exacted measured the maximum utility to buyers. In such a case there is no real competitive price, but the monopolist fixes the price so as to yield him the maximum revenue; this price, therefore, cannot be raised without cutting off demand, and the monopolist

has thus to choose between paying the tax or submitting to a reduction of his sales; he will adopt that course which will give him the largest *net revenue.* In one case the monopolist pays the tax; in the other the tax is paid by those who continue to purchase at the enhanced price, and the monopolist suffers a loss in reduced business. If the article is one much in demand the monopolist may raise the price in the hope that it may occasion an agitation for the repeal of the tax. A tax on a monopolist imposed in the form of a tax on net profits is like a tax on rent, and cannot be shifted.

Any form of control over transit, production, or an essential factor in production, which confers the power of excluding competition, enables the monopolist to raise price at the cost of the community. But a country which is a sole producer does not necessarily get a monopoly price: there may be competition among its producers as exporters, and they may also be held in check by possible substitutes. These monopolies are, however, suitable subjects for taxation; but it is often difficult to assess monopoly-values, and to discriminate between the results of monopoly and those which would be the effect of healthy speculation, as in the absence of competition it is impossible to say exactly what is the true competitive price.

Shifting of taxation thus depends upon the effect of the tax upon price, *i.e.*, upon supply and demand which are affected by price, and the possible fluctuations are very numerous. The principle involved is general, and applies equally to all cases of a rise in value—to wages and profits as well as commodities—and the effect does not depend upon the special cause which

raises value; a tax operates in the same way as any other element in increased cost.

A pure theory of value presupposes perfect competition, but in actual cases there are many limitations and impediments to mobility, and consequently the exact pressure of any particular tax cannot be stated. The problem is also complicated by the action of counteracting forces: *e.g.*, a tax might be imposed upon bread at a time when abundant harvests tended to cause a fall in price, so that no effect on price might be apparent.

The *Area of Taxation*, or degree of generality, affects the operation of a tax. If a tax is general, as in the case of a duty on tea or tobacco, its effect follows the ordinary rule of a rise in price; but if it operates over a relatively small area or group the pressure will be distributed irregularly. In the case, for example, of a local rate being higher in one parish than in an adjoining parish, a portion of the taxed community may migrate to the cheaper locality, and thus the tax will operate to extinguish some rents and lower others in the more highly taxed locality. A similar result would follow the taxing of one only of a group of alternative articles of consumption—*e.g.*, raisins, currants, and figs; tea, coffee, and cocoa; cotton, woollen and linen goods; or a tax on one of competing forms of locomotion; or one out of several methods of production. Part of the tax will in all such cases fall on the producer or purveyor of the taxed article or method. The alternative articles or methods are competitors, and the effect of a rise in the price of one article or method tends to divert consumption to the untaxed substitutes. The result is to place capital in the taxed industry at a disadvantage, and

in time it will be reduced by the elimination of the capital employed at least advantage; so that finally the capital permanently employed in the taxed employment will be less, the price of the article will again rise slightly, and after time for accommodation a new normal will be established, and the tax is shifted to the consumer. It is impossible to trace the incidence in its various stages of adjustment in such cases; the immediate incidence will be mainly upon the producer or dealer in the taxed article, the *ultimate* incidence will be upon the consumer.

The effect of a new tax may be disastrous to specialised capital, which has no mobility. The tendency of the new tax is to raise prices, and thus to cut down demand; but in industries with large fixed and durable capital this result will render some capital unremunerative; it may be a less evil than closing part of the works (and thus wasting part of the plant) for producers to submit to bear the tax until some part of capital is withdrawn from their industry; thus supply and demand in the trade are adjusted at a new level by the wearing out of part of the fixed capital; for this will not be replaced, and gradually profits in the industry will be restored by the flow of capital preferentially to industries which are paying better profits. The net result is a serious temporary loss to that industry, and to the industries engaged in the supply of its machinery.

This examination of different cases of shifting points to the following *tendencies*:

(1) In the case of an absolute necessary where demand is inelastic the new tax will be added to the price, and the consumer will pay it; while there will be minor indirect

effects arising out of his diminished buying power in general.

(2) In the case of ordinary comforts where demand is very elastic, a small rise in price has large effects, and may seriously cut down demand. A new tax will, in this case, be probably shared primarily by producer, dealer, and consumer; ultimately, when supply and demand have become adjusted to the new level, the tax will be paid mainly by the consumer. In cases where there are alternatives, or when subsidiary or complementary articles are involved, a tax on one commodity by a rise in its price may increase the demand for the others, and this may send up their price in some degree.

(3) In the case of a luxury or monopoly in which an article is already fetching the highest utility price, a new tax, if added to price, will reduce demand; therefore, the producer or controller of the monopoly will most probably pay the tax.

(4) When production takes place at different costs, the tendency of the tax is to squeeze out the producer on the margin of "no profit"; while the superior producers can satisfy the whole demand if they choose to pay the tax. This may lead to larger production by the reduced number of makers, and the law of increasing returns may in time recover to them the loss occasioned by the tax.

(5) If a tax on an article is small relatively to the cost, the law of inertia may prevent its

removal to the consumer; the possible loss of trade involved in the shifting may be a greater inconvenience than that arising from a slight reduction of profit; small taxes tend to stick where they fall.

(6) If the article taxed is durable, and will consequently make many successive payments (the case of machinery), and if the tax be appreciable, the tendency will be to contract demand, and thereby to affect injuriously the industries concerned in its production. Any tax which falls upon fixed capital, or where there is little mobility, is shifted with difficulty and very slowly; it tends to remain until the industry is narrowed down by gradual wearing out of plant, when it is paid by the consumer.

(7) Taxes should not be subject to frequent change; after time for adjustment to a tax the pressure is accommodated, and such taxes tend to become *no taxes* by mere adaptation to circumstances in most cases; but this is not universally true, an unjust burden does not become just by usage; in some instances it becomes accentuated.

The incidence of a tax on *wages of labourers* depends upon its effect on the standard of comfort which the labourers have adopted. This standard varies greatly both with locality and individuals, and as circumstances change over a period of time it can never be said to be absolutely fixed. In the case of the wages of labourers actually on the "margin of subsistence" the tax would

be shifted, since by the hypothesis the wage could not be reduced. It was held by Adam Smith that in such cases a tax would operate to reduce the number of labourers, and thus the tax would ultimately be moved either to the employer's profits or to the consumer in higher prices. From the nature of the case the operation of the shifting of the tax would be slow.

If by a tax on wages the labourers' standard of living be lowered so that their efficiency is also reduced, this will react on the value of their work; hence ultimately the tax must fall, at all events in part, upon employers or upon the rest of the community. In the case of the wages of skilled labour with a high standard the tax will be moved with greater difficulty, until at the stage when the labourer's skill gains monopoly-value the tax falls altogether on the labourer. In the wages of professional and highly skilled labour there is an element of quasi-rent upon which the tax may fall; the more the employment partakes of the nature of a monopoly (whether of privilege or endowment), the more does the rent factor enter in. Competition in these cases is for employment and position rather than directly for wages; this is seen forcibly in the case of barristers, medical men, artists, clergymen, and the Civil Service; it applies similarly to the more highly skilled trades. In such cases the tax cannot be shifted directly, but it will tend to limit the numbers in those occupations. In employments where rent enters less into wages, and competition, acting through supply and demand, is the agent which determines the standard wage, it is more possible for a part of the tax to be thrown upon the community in higher prices. The principle involved is the same as in the case of commodities, but owing

to the greater friction in the play of economic fòrces in the case of labour—from want of mobility, expense of changing employment or locality, and the difficulty of waiting—supply and demand cannot be adjusted as readily as in the case of commodities; consequently the shifting of a tax is slower and more uncertain.

A tax on general profits is a tax on capital, and cannot be directly shifted; but since profits vary greatly, it would cause disturbance among producers, and might squeeze out the smaller employers; also by discouraging saving and investment of capital and causing its migration in search of better returns, it might lead to a rise in prices and a diminution of employment, and thus shift part of the tax to consumers, and part to labourers in lower wages.

But saving is now influenced by other motives besides the rate of interest, and the history of the last half century shows that it has increased simultaneously with a fall in the rate of interest; it is improbable, therefore, that employment or general prices would be materially affected. A tax on capital is, however, economically harmful, and also unfair, as being a penalty upon thrift; it is not very probable that such a tax, if general, would be shifted. A tax upon the profits of special industries would, however, be shifted by causing capital to move by preference to other industries not similarly burdened, prices would then rise in the taxed industry until it became equally remunerative and attractive to capital.

Taxes on a surplus cannot be shifted, thus a tax on economic rent of any kind—agricultural rent, ground rent, the quasi-rent element in profits or wages—would remain; the only forces which can move it operate

indirectly by discouraging in some cases the creation of the surplus. In the case of the rent of agricultural land the doctrine is that competitive rent is fixed by the margin of cultivation; on the margin the whole produce measures the cost of production and is absorbed in price; and in this case there is no rent to be taxed. But superior land pays rent, and a tax on this cannot be shifted; the tax cannot touch price, for rent does not enter into price; a tax on rent thus remains with the rent-receiver. The same reasoning applies to urban ground-rents. A tax on differential ground-rents, *i.e.*, those which have monopoly value, cannot be shifted since it falls on a surplus; a tax on the lowest ground-rents might be shifted to the tenant since there is no building-land which does not pay a minimum rent. As has been already stated, owing to the imperfect working of competition these principles, true in the abstract, are tendencies much modified by circumstances in individual cases.

Rent of land is not in all cases purely a surplus, a part is due to the investment of capital in improving the land, or in making it accessible; rent in such cases includes interest on capital, but it is not easily separable from the "unearned" rent, and a special tax upon rent would fall upon both alike. If a tax on rent were to check investment of capital in land-improvements, it would cause the tax to be shifted in part to the consumer by a rise in price; to obtain the requisite supply of food recourse to poorer soil may be necessary; with a fall in the margin of production the law of diminishing returns comes into operation; this means a higher cost of production. Thus a tax on rents derived from improvements in land acts as a tax on capital sunk

in land, and tends to limit such investments and to raise prices, and falls to that extent upon consumers.

The same reasoning applies to that portion of profits which resembles rent; it arises from superior skill in management, which is a very variable faculty. A tax on special profits which touches only the superior employer's special gains will not be shifted, but if it reaches the lower ranks of employers where this kind of profit is practically *nil*, it may drive out the weak employer altogether. A tax on profits, therefore, presses in different degrees upon employers, and its incidence in many cases would be transferred in part.

A general property-tax on houses is at its first imposition a tax on a special form of capital, and will affect the supply of houses. If it be added by the owner to the ordinary house-rent or be collected from the occupant, it will tend to check demand, and this will react in discouraging building. If house-supply be inadequate the rent may be temporarily increased by the tax until supply and demand have equated. The tendency of a tax on any special form of capital such as house-property is to discourage that kind of investment; ultimately, when profits have recovered the normal, the tax will fall upon the consumer just as in the case of tea and tobacco; thus in the long-run, since houses are articles of universal consumption, a tax such as the Inhabited House Duty falls mainly upon the occupier.

A tax on *inherited property* (estate or succession) is a tax on that special capital at transfer; it cannot be shifted, and falls on the new proprietor. There are, however, indirect effects upon capital if saving be thereby diminished.

A tax on *personal property* which is not productive capital cannot be shifted. Such property being used for the enjoyment of the owner (like pictures, jewellery, carriages for pleasure, etc.) is not sold, transferred, or employed as capital under competition, hence the tax remains with the consumer. It is a kind of sumptuary tax, levied mostly as a direct tax; such are the duties on guns, dogs, armorial bearings. In the case of commodities thus taxed (like carriages), there is an indirect effect in the tendency to reduce the demand; and the tax when first imposed may injure the industries concerned, though ultimately, after time for adjustment, it is paid by the consumer. Such taxes fall only upon a limited class, to whom the motive for the enjoyment of the special luxury or distinction probably appeals more than the cost of the tax; hence the elasticity of demand is very slight. Carriages used for business purposes, as in the case of medical men, form part of their capital equipment; the whole cost, including the tax, tends to affect the remuneration of their services, and therefore indirectly to fall upon their clients in the long run.

Special taxes on property such as the land-tax, when first imposed, fall upon the owner. A purchaser of such property will pay less for the land in consequence of the tax upon it; the seller, therefore, loses the capital-value of the tax in the sale; subsequent holders do not in effect pay the tax, since it was eliminated in their purchase-price of the land.

The Budget of 1909 introduced several important changes both in principle and in the modes of taxation of Land:

Duties on Land Values.—Cf four kinds, based on the value of land sites to be determined by a valuation

as on 30th April 1909, and to be applied to future unearned increment of land other than agricultural.

1. *General Increment Value Duty.*—Payable whenever the owner realises the increment by sale, or by a new lease for more than fourteen years, or at the death of the owner. Since Corporations do not die, they are to pay every fifteen years as well as on sale or re-letting. The duty to be £1 in every £5 of increment value, and to be paid by stamp. Exemptions: (*a*) agricultural land possessing only agricultural land value; (*b*) small agricultural holdings of not more than 50 acres occupied and cultivated by the owner, the value of which do not exceed £75 per acre; (*c*) sites of small residences occupied by the owners, or by holders of a fifty years' lease, when the annual value does not exceed £40 in London, £26 in other towns of 50,000 inhabitants, £16 in other cases.

2. *Reversion Duty.*—Payable by the lessor on the determination of a lease at the rate of £1 in every £10 of the benefit gained by the lessor. Agricultural land to be exempt, also leases of which the term was less than twenty-one years, and reversions which determine in less than forty years from purchase, if purchase was made before 30th April 1909. Mining leases also to be exempt, and allowances to be made on leases renewed before the expiration of the original lease.

3. *Undeveloped Land Duty,* levied on the site value of non-agricultural land worth more than £50 per acre, not built upon or used for any industry other than agriculture. The duty to be payable by the owner, or by a lessee for a term of fifty years at the rate of ½d. annually on every £1 of site value, which is fixed by a quinquennial valuation of the market value of the land as divested of any buildings. Exemptions are made of recreation grounds, parks, open spaces, etc., for public purposes, and small holdings of less

than £500 site value occupied and cultivated by the owners.[1]

4. *Mineral Rights Duty*, levied on the rental of rights to work minerals or mineral wayleaves (excluding clay, sand, chalk, limestone and gravel) at the rate of 5 per cent. on the rental value, and to be paid annually to the Crown as a debt. Exemption: land held by local or rating authorities, or occupied and used for the purposes of a charity, and also land occupied by railways, canals, docks, water, and other statutory companies so long as it is applied to those purposes.

[1] The Finance Accounts, 1916-17, state that for the year 1916-17 the *Undeveloped Land Duty* gave—

Gross receipts . . .	£68	19	2
Repayments . . .	265	6	11

This indicates a loss of £196, 7s. 9d., independent of the cost of collection, etc.

The results seem scarcely to justify the existence of this tax.

CHAPTER VII

PUBLIC CREDIT—NATIONAL DEBTS (1914)

PUBLIC debts are phenomena of modern growth, yet so general and so large are they in advanced communities that they have come to be regarded as almost a mark of progressive civilisation. The old established countries of Europe, the younger republics of the New World, the British Colonies, and India, have all alike incurred these liabilities. The public loaning system is an outcome of the economic developments and monetary methods of the last two centuries; the large use of credit, the system of banking, the utilisation of small capitals by joint-stock combination in carrying out industry and commerce on a gigantic scale, and the many facilities for employing savings to advantage by their aggregation, all have combined to create a machinery for borrowing and lending which has become of vital import to the economic condition of a country. A highly organised system of banking, the money market, and stock exchange are parallel developments, which have rendered all classes familiar with loaning and investment; the application of their machinery and methods to public expenditure was inevitable. Great nations and small states, colonies, municipalities, and corporations have become

borrowers, and public expenditure is now greatly dependent in cases of exceptional outlay upon public loans.

Public debts, like taxes, may be grouped as imperial and local. Loans are issued by both states and local authorities, and a large percentage of the stocks quoted on the Stock Exchange are those of states and corporations. The National Debts of the world in 1914 are estimated at more than £7,800,000,000; of these, the debt of France amounted to £1,015,000,000; that of Great Britain in March 1914 was £649,770,390; the debt of the United States is £212,000,000; of Germany £250,000,000; of Russia more than £945,000,000. Australia has borrowed £273,000,000; New Zealand £80,300,000; Canada £68,000,000; India £300,000,000.

Local Debts in Great Britain also are rapidly increasing. The Metropolis (County Council and various Local authorities) in 1914 had borrowed £132,607,301, and the total outstanding loans of the Local authorities in England and Wales amounted to £562,630,041 at the close of the year 1914.

Formerly states accumulated treasure as a provision for contingencies. In mediæval times hoarding was a common practice, and some modern nations (Russia and Germany) still maintain the same method of storing up bullion and coin for war purposes. Prior to the growth of the credit system these hoards were the only reserves immediately available in war, to provide subsistence and staying power, and to carry on offensive and defensive operations. The early English kings obtained private loans from the Jews, Lombards, and other foreign bankers, or extorted from their subjects

forced loans to meet emergencies. Henry VII. hoarded wealth which his son scattered; the Stuart sovereigns borrowed from the goldsmiths and bankers; but the repudiation of his debts by Charles II. destroyed the royal credit, and practically put an end to the borrowings of British kings. Following the example of Holland, a system of pledging the credit of the State, in the form of a National Debt, began soon after the English Revolution.

The hoarding system has obvious limitations and drawbacks; reserves in time of peace are idle, unproductive, and costly, and they soon become exhausted when the occasion for their use arrives. They withdraw from service a commodity which costs much to obtain; they also affect prices by raising the value of money, and they form a temptation to the enemy to seize a weapon which can be utilised against the original owner. Economic science has shown that money is best left "to fructify" by use in the hands of its owners; if required, it can then be drawn upon in the form of taxes or loans; and meanwhile, wealth is better engaged in carrying on productive industry, which will add to its power of contributing loans for public wants in times of need, than by being stored away in guarded cellars. The real reserve of a nation lies in its power to subscribe to taxes and loans, that is, it consists of the revenue and wealth of the people, and this is better accumulated as active capital by individuals than as a hoard by a government.

In an age of expanding industry many circumstances have favoured the growth of the loaning system and the creation of National Debts. Such debts are a mortgage upon the wealth and industry of a nation, secured upon its taxes and future revenue. In some

cases special taxes are set apart (ear-marked) to meet the interest on loans; in others the interest becomes a charge upon the general revenue of the country.

National debts are largely the product of wars, and they have been increased by every great war. The history of the British debt illustrates this fact. It commenced after the Revolution of 1688 with a floating debt of £1,000,000. The need for funds to carry on the war with France led, in 1694, to the foundation of the Bank of England, with a capital of £1,200,000, which was lent to the Government at 8 per cent. The neglected debt of Charles II. was taken over a few years later at £664,264 (half the original sum) as a State liability. The war continued to make fresh demands, and the debt accumulated, until, at the Peace of Ryswick in 1697, it amounted to £21,500,000

In 1702, at the death of William III., it had been reduced to	16,400,000
In 1713, after the war of the Spanish succession (Treaty of Utrecht), it amounted to . .	53,680,000
In 1763, at the end of the "Seven Years War," it was	138,865,000
In 1783, after the War of American Independence, the debt was	238,000,000
In 1802, at the Treaty of Amiens on the suspension of the war with France, it was	537,650,000
In 1815, after Waterloo (Treaty of Paris), the funded and floating debt amounted to	876,000,000
In 1854, before the Crimean War, it had fallen to	808,000,000

In 1857, after the Crimean War, and Indian Mutiny, it had risen to	£838,918,000
In 1899 it had become reduced to	627,562,000
In 1903, after the South African War, it had again increased to	770,778,762
On 31st March 1905 the debt, including Funded and Unfunded debt and capital liability for Terminable Annuities, stood at	755,072,109
On 31st March 1914 the total debt was	649,770,090

The French debt has grown up within a century to £1,235,370,969, of which three-fourths has been caused by war (about £300,000,000 represents State interests in French railways); the Franco-German War alone increased its amount by £340,000,000; it is the largest national debt in existence, and costs £38,350,000 per annum in interest. On the other hand, the debts of India, Australia, and Canada have been incurred mainly for productive purposes, and they are remunerative in so far as the loans have been well expended. The German debt is mainly productive, and is represented by a large material asset in railways and other public property; the debts of corporations are mostly created for the purpose of public works and enterprises, some of which yield a revenue.

Loans may be either *forced* or *voluntary*. Forced loans are in effect compulsory taxes exacted from a limited class, and are therefore unjust. The methods of some early English kings afford examples of loans made under pressure, and the system may be said to have continued down to the time of the Stuarts. France in 1793 also adopted financial measures which

are properly described as forced loans. Sometimes appeals for advances have been made to patriotism, as in 1848 by France and in 1870 by Germany; but such measures are not very successful, and fail to call forth a hearty response. The modern kind of "forced loan," most frequently adopted in a national emergency, takes the form of an issue of inconvertible paper currency, and many states, including Great Britain (1797-1821), France at the Revolution, and the United States during the Civil War, have extended their credit by this means under pressure of the exigencies of war. The result is that the government secures a loan without interest to the amount of the paper issued, but the nation suffers an economic loss through the rise in prices which usually follows as an effect of the addition to currency; a general disturbance in prices and foreign trade ensues, and gold is driven out to equate indebtedness. But inconvertible paper seldom stops here, it is almost certain to be over-issued; then its value immediately falls, and depreciation continues with every addition. This is a great national misfortune: the whole credit fabric is shaken, trade becomes speculative, a commercial crisis may ensue, and in any case financial and trade depression follow; all classes of creditors suffer loss, the State receives its taxes in the depreciated paper, and when the period of redemption comes the Government must withdraw its paper at the face value, or inflict a severe blow upon its credit and future borrowing powers. The system is economically disastrous; for the purpose of obtaining a temporary advantage great dangers, financial, industrial, and social, are incurred. Nevertheless most great powers in acute

national emergencies have had recourse to paper issues.

Voluntary loans are of several kinds.

(1) A perpetual or permanent debt is a public loan on which the government undertakes to pay an annual interest, but does not promise to repay the principal at any particular date: it becomes in effect a permanent annuity of which the holder can dispose through the agency of the Stock Exchange at its market value. The State may redeem the debt at par (unless it has undertaken not to do so before a specified date), or it can extinguish debt when funds are available by purchasing in the open market. This is the most convenient form of public debt, and that in which the larger loans in Great Britain are now contracted. It is called *Funded Debt* as constituting a permanent charge upon the consolidated fund or permanent revenue of the country; the English debt is also called "consols" from the fact that a number of loans issued at different rates were unified or consolidated into 3 per cent. stock in the year 1752, and further consolidations have taken place by conversion at subsequent periods.

The amount of British funded debt in 1914 was £586,707,872. The great merit of a funded debt is that the country knows its liabilities, and can take suitable measures to pay its interest regularly; it can make definite arrangements to reduce the amount of the debt.

Unfunded or Floating Debt consists of loans for temporary purposes, repayable at fixed dates; they are primarily a convenience to meet the needs of exchequer payments while taxes are coming in; such demands

arise for services and goods, and for loans made by the State to local bodies, and their payment may in some cases anticipate the periods when revenue is falling due. Temporary debt is generally raised in the form of Treasury Bills, usually of short date, three, six, or twelve months, or even longer periods at some low rate of interest; £13,000,000 of such Treasury Bills were in circulation on 31st March 1914. These bills are much in demand, being convenient for capitalists whose money is thus at call; they are negotiable, are payable to bearer, pass by delivery, and may be paid as taxes. It is an accepted principle that unfunded or floating debt should be kept as small as possible, and that if circumstances occur which render the debt other than temporary, some part should be replaced by funding. Exigencies arise in which the floating debt becomes exceptionally large and the time period is extended; such occasions were the Franco-German War and the special conversion of British consols (1889). Securities for special service called Exchequer Bonds are then created at a fixed rate of interest and repayable at a definite period; £20,500,000 such Bonds existed on 31st March 1914 payable in April. This form of security was introduced by Mr Gladstone in 1853.

Terminable annuities are a kind of sinking fund for converting permanent debt into temporary debt by capitalising part of the permanent debt and paying off both capital and interest automatically in a fixed period. The capital value of British terminable annuities in 1914 was estimated at £29,552,219.

A large part of these annuities consist of Post Office savings banks and Chancery funds which have been invested in consols by the National Debt commissioners, and thus portions of these stocks have been commuted by being converted into terminable annuities which expire in periods of about twenty years. The sums paid annually to the account of the Savings Bank and the estates in Chancery are equal to the interest on the stock, plus an amount computed to produce by reinvestment a sum equal to the original permanent stock during the period the annuity has to run.

To the nation the effect is that during the interval taxation is increased by the additional payment, and at the end of the period a capital portion of national debt is wiped out. The principle of Terminable Annuities was definitely adopted by Mr Gladstone in 1868; it was renewed in 1884, and has become a recognised means for reduction of debt.

Public loans may be *internal*, *i.e.*, they may be subscribed entirely by the people of the country; or they may be *external*, *i.e.*, raised wholly in a foreign country; or they may be held partly by home and partly by foreign subscribers. The British debt is mostly internal. Loans may operate (1) to absorb savings unemployed in industry, and thus utilise for government purposes wealth that might have sought some speculative investment at home or abroad; in such a case they do not reduce the active capital of the country; or (2) loans may divert wealth from private productive employment to government expenditure, in which case unless the State expenditure is for productive purposes there is a diminution of industrial capital.

But in cases where loaning would be a drain upon home resources, loans are generally *external*; *i.e*, poorer countries and young colonies borrow from richer countries and take some of their surplus savings. If these are applied in the borrowing country to enterprises which develop its resources, the loans increase the capital of the world; the interest paid for its use may be much less than its yield, and its economic employment thus simultaneously aids in the development of the borrowing country while enriching the lending country, and it also creates an extension of international trading beneficial to both. The industrial development of India and Australia has been greatly promoted by British capital, and their economic progress affords proof of the beneficial results of external loans to both lending and borrowing countries.

The debts of the British Colonies have been mainly incurred for productive purposes; roads, railways, harbours, irrigation, and many other useful public works have been created by their aid: the progress of these countries has thus been hastened, and an advanced stage of civilisation more rapidly attained. Facilities for borrowing with indefinite postponement of repayment have, however, this danger, that they tempt to extravagant schemes, reckless outlay, and speculative expenditure upon projects which may turn out to be premature or wholly unproductive. By this kind of hurried development some young colonies have burdened themselves with heavy taxation, and various young republics have been brought to national bankruptcy and repudiation of debt, which have destroyed their credit and placed a severe check upon their prosperity.

No general principles can be laid down as to the expediency of national loaning. It must be determined by the circumstances. The method of loaning and the provision for repayment always constitute an essential part of the problem.

It has been urged as an argument against loaning that, in the absence of a system of public borrowing, the expense of war is limited by the capacity for taxation; that war is then entered upon less readily and is less likely to be protracted; while, on the other hand, the simple device of borrowing with the possibility of placing a large part of the burden upon posterity tends to cause war to be more lightly undertaken and to be prolonged unduly; moreover, it is held to be unjust that any generation should inflict upon those that follow the burden of its unproductive expenditure. Since it may be assumed that posterity will have its own difficulties and burdens, it is neither generous nor patriotic to pass on to it a legacy of debt created by the imprudence or ambition of the present generation. Inherited incumbrances do not make for the stability of either families or nations.

So conclusive is this argument that only great threats to national existence, struggles for national independence, and unavoidable wars would seem to justify a nation in casting permanent burdens of debt upon succeeding generations. If, however, a national crisis occurs, or some great principle is at stake which will affect the future of the country indefinitely, it may be right that posterity should share the cost; it cannot share the misery of the conflict. Further, a nation under the strain of a great struggle may reach the limit beyond which further taxation would be unendurable,

or perhaps fatal to its economic stability; debt is then the only alternative. But it is a wise policy that each generation should pay its own way in all matters of expenditure which cannot be shown to be cases analogous to permanent investment of capital. Adam Smith and David Hume expressed, in their day, great alarm at the growth of the debt, which, they thought, portended national bankruptcy in both means. Macaulay, at a later period, regarding with satisfaction the rapidly growing wealth of the community and the general improvement in the standard of living, rather ridiculed these predictions, maintaining that national resources had increased faster than indebtedness, and that the *real* burden of the debt was diminishing. This comparison, ignorantly misunderstood, led to the adoption of the absurd view that the British debt was actually a cause of national progress; it was maintained that the nation had only lent to itself, and had thereby created a fund which was a source of wealth. A debt incurred in order to procure productive capital for a young and vigorous country, well supplied with labour and productive land, but lacking the means for its development, may become a source of wealth from the same causes that enable all well-employed capital to increase wealth; but in any other sense a debt can be nothing but a burden to a country, just as a private debt is a liability to an individual. The British nation pays some £20,000,000 annually in taxation, as interest on debt incurred for expenditure on wars a century ago. The necessity for such taxation can hardly be regarded as a national advantage, even if the interest is paid to British citizens who expend their dividends at home. The inevitable conclusion is that measures should be adopted for the

reduction and ultimate extinction of the debt. True, the burden becomes relatively lighter with the growing prosperity of the nation, and its severity is much less felt when spread over 45,000,000 people with the present national income than it was in 1815, when the population counted only some 15,000,000 people with relatively much smaller resources; the diminution in the relative burden of the debt is, however, an argument in favour of making some sacrifice for its capital reduction. Considering the great increase in the wealth of Great Britain, the debt has been reduced very slowly.

It has been advanced as an argument against the reduction of the debt that the stock forms a convenient and safe security for the investment of Trust funds, and for the reserves of bankers, insurance societies, Post Office savings bank, etc. But it is no necessary function of a government to provide such security, nor is the service economically necessary. Numerous other investments suitable for these purposes exist in India Stock, Corporation Stocks, Colonial Inscribed Stocks, and Debentures and Guaranteed Railway Stocks, etc.; and there is a constant addition to this field for investment with the growth of municipal undertakings, the development of the Colonies, and the increase of population.

Loans are issued (*a*) by a direct appeal for subscriptions, (*b*) or by negotiation through a banker or group of capitalists; the latter is usual in the case of foreign loans. The rate at which they are offered depends on the credit of the government, and its estimate of the money market, the current rate of interest, the circumstances at the time of issue, and the conditions of repayment. Loans may be offered

at a fixed price, or to the highest bidders with a minimum limit. They may be effected at par, below par, or above par. Sometimes a government finds great difficulty in borrowing at a moderate rate, and then, rather than pay a high rate, it elects to create a debt of a higher nominal capital than the sum it receives in order to keep down the denomination of the loan; the system throws a greater burden upon posterity, and prevents the advantage which might be obtained by conversion of the debt at a future time. As examples: for £334,500,000 stock created by Pitt at low rates of interest the government received only £200,000,000 in cash; the 1904 Russian loan raised in France was a 5 per cent. loan, issued at 95, repayable at par in five years, and accompanied by a stipulation that a large part of the loan should be taken in goods from France. In each of these cases the borrowing government undertook to pay back a much larger sum than it received, and this was done to keep down the immediate rate of interest. Had the loan in each case been effected at, or below par with a higher rate, the immediate burden on the borrowing country would have been greater, but when the crisis had passed and an interval had elapsed, during which the borrowing country regained prosperity and credit, the stock would rise in price; the government could then convert the loan into one of a lower denomination, that is, either it could reduce the rate of interest by effecting a cheaper loan with which to pay off the former loan, or, what is more usual, the holders of the loan would accept the lower rate then offered as representing its improved value at the current rate of interest. This process of conversion has been frequently accomplished. It was

commenced in England as early as 1714; the largest amount so dealt with at any one time was the conversion by Mr Goschen, in 1889, of £558,000,000 British 3 per cent. stock to 2¾ per cent. for 14 years, the rate to be then reduced to 2½ per cent. This operation took place in a time of peace and prosperity, when government credit was high, and when the normal rate of interest had been so low for a long period that it seemed to have fallen permanently to a lower level.

It is impossible to compare with any degree of exactness the burden of debt in different countries; neither the amount of debt per head of population nor the rate of interest is any criterion. Debts may pay different rates of interest, but the severity of the burden must also be relative to the density of the population and the degree of prosperity, to the standard of living and earning power, and the national resources of each country; further, it is very necessary to distinguish remunerative from non-remunerative debt. The debt of Great Britain amounts to about £15 per head of population (1914), that of India to about 18s per head, but the average income in Great Britain is many times greater than the average income in India. On the other hand, a large part of Indian debt represents productive works (railways and irrigation), while no part of the British national debt can properly be said to yield revenue. The debt of New Zealand, raised mainly in Great Britain, amounts to some £35 per head of population, but a considerable part of it is productive. It is, however, an extravagant debt for so small a colony, even though the natural productiveness of the country be great.

Methods for Reduction of Debt.—Some countries have

adopted violent methods for the diminution of their debt, and have attained their aim by repudiation, or by forcible reduction of interest. Usually this act is preceded by gross public extravagance, revolution, or desolating war. There is no remedy against a defaulting or repudiating state, unless by force or by appropriation of its territory. The repudiation, apart from its moral aspect, is a case of national bankruptcy both of means and character; it becomes a check to development and trade, and is a destruction of national credit for the future; and it is as impolitic as it is dishonest.

The principle of applying any casual surplus revenue as a kind of sinking fund for the reduction of debt was adopted very early. It is, however, a slow and very inadequate method, since in some years there may be a deficit, and unless the revenue be arranged to yield a surplus annually, no definite amount can be calculated upon for reduction.

The British practice is to provide in the Budget for a fixed sum to be set apart annually for the payment of interest on the debt, and as a sinking fund for the redemption of part of the principal. This method has been systematically adopted since 1875, when the sum so appropriated was £28,000,000. The original amount has, very unwisely, suffered reductions at the hands of subsequent Chancellors on the ground of the pressure of exceptional expenditure, and the fund for repayment has been entirely suspended on several occasions.

Pitt's sinking fund of 1786, based on the calculations of a certain Dr Price, was a financial delusion. Its principle was that the government should apply annually, through a board of commissioners, a sum of £1,000,000 to the purchase of stock which was to accumulate at

compound interest until it equalled and wiped out a certain amount of debt; and it was decided that, as a provision for repayment, all future debts were to be accompanied with a similar sinking fund. It was not until 1819 that the absurdity of this method of merely taking money out of one pocket in order to transfer it to the other was clearly understood. The fallacy was fully exposed by David Ricardo, and this form of Sinking fund was abolished in 1829.

At one time the doctrine was prevalent that particular taxes should be set apart for the repayment of debt. Indeed Walpole, in 1716, charged certain revenues with annuities for this purpose. At a later period it was proposed to assign the Death Duties to the reduction of debt, and this idea was much favoured by Mr Gladstone. It has also been suggested that the Land Tax should be redeemed, and that the capital sum so obtained should be devoted to reduction of debt; but neither proposal has been adopted.

It is obvious that a systematic and persistent method is necessary if any real reduction is to be secured; debt is an evil to a nation as to an individual, and though the burden becomes more tolerable as the nation grows wealthier, debt is not an institution to be upheld. The nation should insist upon paying off a definite amount annually, and in times of prosperity it should make specially large contributions to that end. Every war has increased the debt; the South African War added about £160,000,000, and for the time put a check upon the reduction of the debt while it has practically wiped out the reductions of the previous thirty years. This set-back only renders systematic treatment in periods of peace the more urgent.

Some economists have argued that so long as any undesirable form of taxation remains, it is better for a country to remit the tax than to reduce its debt. On this it may be remarked that if taxation is oppressive it will be difficult without effecting economies to raise further taxes for any purpose, and reform of taxation is in such a case essential. If the system of taxation is unjust it should be brought into conformity with established principles and canons of taxation; but this is a matter quite distinct from the question of the amount or object of the taxation. And in any case the existence of a debt entails taxation for payment of the interest, and a reduction in its amount at any opportunity will be a method of reducing future taxation for interest on the debt. The system of Terminable Annuities, explained above, is one mode of extinguishing a portion of debt by a special effort extended over a period of years. The proposal of a general contribution to pay off the debt is scarcely worthy of consideration. It implies either that the whole community shall contribute capital, which is impossible; or that the burden is to be borne entirely by those who possess property, which is not only unjust, but also impracticable, since the majority would need to incur private debts at higher rates in order to pay off their share of the National Debt.

The method of conversion already described is a most effective mode of reducing the capital amount of the debt, provided that the reduction of the rate of interest is not accompanied by an addition to the nominal amount of debt by means of bonuses granted in order to make the lower rate acceptable. The credit of the State and the circumstances of the money market

ought to be such as to warrant the conversion to a lower denomination. This enables the gain by reduced interest to be applied to the reduction of principal under that system of sinking fund which devotes annually a certain fixed amount to the purposes of the debt.

Local Loans.—The great extension of municipal government has called into existence a new kind of national debt, or rather a group of public debts, for local purposes. These debts, which have increased rapidly since the Local Loans Act of 1875, enabled local authorities to borrow in the open market, amounted for the year 1914 to more than £562,630,045 in the United Kingdom; of this sum the metropolitan loans account for over £132,000,000. The total amount raised for local purposes in the United Kingdom in 1914 was £169,325,118, and of this sum nearly £20,000,000 was obtained from loans. Local expenditure has received aid from State loans under special Acts of Parliament from 1792; repayment was formerly allowed over lengthened periods, some extending even to a hundred years, but since 1875 local loans have been issued under regulations administered by the Local Government Board, which requires a sinking fund to be provided with each issue so as to redeem the debt in some moderate period, generally about thirty years. In 1887 the loans thus made by the Treasury for local purposes were separated from the National Debt and were created into a Local Loans Stock. The credit of Corporation Stocks stands high, and they are now included in the Trust Funds Act. The rates vary from 3 to 3½ per cent.

By far the greater part of local debt is urban, and is due to municipal activity. About one-half of the

debt represents remunerative outlay on water, gas, and electric lighting works, harbours, docks, quays, piers, tramways, etc., which yield a revenue, and in some cases, a profit; any deficit has to be made up from rates. Another large section of the debt is due to expenditure, which, though not revenue-yielding, is yet essential and directly beneficial to society: such is the expenditure upon schools, infirmaries, asylums, workhouses, public offices, baths, libraries, and fire-stations. The remainder is occasioned by other works of public utility or for health, such as drainage, roads, parks, bridges, open spaces, artisans' dwellings, etc.

The loaning system encourages public outlay upon improvements by the facility with which it enables capital to be obtained; the system is open to abuse, and loans have grown with alarming rapidity. The danger is that it renders extravagance easy, and by placing the burden upon the future, it favours a tendency of public authorities to embark upon enterprises of a more or less speculative character. Some of these are industrial undertakings which it might be more expedient to leave to private capital and risk, but over which the public could retain some control. Heavy burdens have in consequence been imposed upon some localities for repayment of capital and interest which tend to check their progress and place their industries at a disadvantage when competing with less heavily taxed localities.

The practice of loaning needs to be exercised with much discretion; it is reasonable that expenditure upon desirable public works of a durable character should be spread over a period which represents their fullest utility; on the other hand, that period should be

carefully limited, since fresh demands for expenditure constantly arise, and each generation will experience new wants and will have to meet new claims upon its income.

The incidence of interest and repayment, as of all rates, is mainly upon occupiers of houses, etc., and in part on ground landlords; heavy taxation may drive away some of those rate-payers who can change their locality, and may leave the burden to those less able to move. The maxim "festina lente" applies to corporations and to young colonies alike in their eagerness for development. The power of borrowing, if exercised moderately and in order to provide the power of judicious expenditure, may become an instrument of rapid advancement; but if practised in excess, or for purposes of outlay upon schemes of a speculative character, it may entail a heavy drain upon the resources of the district, and thus exhaust the wealth which would otherwise have made for its progress and development.

CHAPTER VIII

SOME OTHER REVENUE SYSTEMS

In an earlier chapter it was remarked that taxation is not merely an abstract problem; the system of any country must be relative to the historic evolution and existing circumstances of that country. Actual taxation is determined to a large extent by local conditions and possibilities, and these bring into strong relief many facts which are more or less peculiar to the individual case. Guiding principles do not vary; the classic canons of taxation are not superseded, but their application is controlled by special causes operating in each case.

A brief account of the systems of taxation which obtain in two other important countries, India and France, will offer a comparison which will illustrate this statement. India is a country about half as large as Europe, extending over an area of 1,803,000 sq. miles (including the native states), and peopled by 315,000,000 inhabitants of many races and languages, of whom only some 250,000 are Europeans. It is important to remember that two-thirds of the population are dependent on agriculture, living at a scale of comfort very low indeed when compared with European standards, and mainly governed in their occupations

and modes of life and thought by ancient custom, caste, and tradition.

For the year 1915-16 the revenue and expenditure of India were as follows:

	GROSS	NET
Revenue	£84,414,000	£55,961,000
Expenditure	85,602,000	57,143,000

The difference between the gross and net figures is accounted for by the fact that the government of India expends a very large amount upon productive works (railways, irrigation, canals, etc.) for the development of the country, and that the total receipts and payments on account of these appear under the gross revenue and expenditure. In Great Britain enterprises of this kind are carried out by private capital; in India there is little native capital or enterprise; consequently the duty of stimulating progress and advancing the economic conditions falls mainly upon the rulers of that country. Deducting, therefore, the receipts and charges arising out of these necessary and remunerative undertakings, and also those connected with the cultivation and manufacture of opium, we obtain the net revenue and expenditure which afford the best index to the financial position of India.

NET REVENUE, 1915-16

Land Revenue	£21,260,000	
Forests	2,065,000	
Opium	766,000	
Carry forward		£24,091,000

	Brought forward .	£24,091,000
Taxes—		
Salt . . .	£3,373,000	
Stamps . .	5,377,000	
Excise . .	8,498,000	
Provincial Rates	42,000	
Customs . .	5,720,000	
Income Tax .	2,090,000	
Registration .	518,000	
		25,618,000
Commercial Undertakings—		
Posts, Telegraphs	£638,000	
Railway Revenue	4,075,000	
Irrigation . .	1,058,000	
		5,771,000
Miscellaneous—		
Tribute from Native States.	£404,000	
Mint Exchange, etc.	87,000	
		491,000
	TOTAL NET REVENUE	£55,961,000

NET EXPENDITURE, 1915-16

Debt Services	£94,000
Army, Marine and Military Works . .	22,261,000
Collection of Revenue	6,698,000
Civil Services	26,959,000
Famine Relief	1,000,000
Provincial Balance	131,000
	£57,143,000

It will be seen that land is the chief source of revenue, and it yields about 40 per cent. of the net revenue; taxation of various kinds gives £25,662,000, or 45 per cent., leaving £6,252,000, or 13 per cent. from all other sources; a large portion of the revenue arises from government enterprises of a productive or commercial character. The government now owns nearly all the railways, and a very large revenue from this source is assured when the purchase of the main lines shall have been completed, which will take place in about forty years.

Expenditure falls mainly under two heads: Military, £22,261,000, and Civil, £26,959,000. The military charges are not high when the extent of the country and the enormous population are considered, while civil expenditure includes outlay upon an unusually large number of government activities.

The progress of India has been very great during the last fifty years, and the burden of taxation upon the Indian community is probably lighter than that under any other civilised government; the average taxation amounts to only 2s. 6d. per person, while the land revenue amounts to an additional 1s. 8d. per head.

The revenues from salt, opium, customs, tributes, railways, etc., are devoted to imperial taxation. The revenue from land, stamps, excise, assessed taxes, etc., is shared between the imperial and the provincial governments.

The Land is the largest source of revenue in India, yielding a land-tax or rent-charge of £21,260,000. This sum is, however, not really taxation at all, but represents the rent of the soil paid by the cultivators to the State, which has always been the recognised

owner of the soil, and is the immediate landlord over the major part of the country. This revenue has increased in gross amount, mainly through an increase in the territory under British rule, and through additions to the area under cultivation, either by reclamation of waste, or by the extension of irrigation in more or less desert tracts, at the expense of the government. This increase has been coincident with a general reduction in the assessments. The State thus receives in rent 10 per cent. of the gross produce of the soil. In addition to the rent there are local assessments of the land for the maintenance of roads, schools, hospitals, etc. Municipal revenue is derived mainly from octroi and taxes on land, houses, vehicles, and animals.

Forestry, which is carried on in a very efficient manner by the Government in India, has secured to the country more than 240,000 square miles of valuable property. This State enterprise supplies a necessary commodity of which the country was rapidly becoming denuded by reckless consumption, while it employs much labour. Forests yielded a net revenue of £2,065,000 in the year 1915-16.

Opium is a government monopoly; it may be grown only in three provinces, and in the native states of Central India. A duty and a licence are required for the sale of the drug, and a licence is also required for poppy cultivation. The produce of the British provinces is purchased by government agents at fixed prices, the opium is manufactured in government factories, and sold by auction at Calcutta. The Malwa opium of Central India pays a pass duty on entering British territory. The net revenue in 1915-16 was £766,000. Formerly the chief market for

opium was China. By negotiation this trade was gradually checked, and ceased entirely in 1915.

The Income-tax yielded in 1915-16 a net sum of £2,090,000. The minimum income now paying the tax is Rs.1000; under Rs.2000 the rate is 2 per cent.; on Rs.2000 and upwards it is 2½ per cent. It amounts to about 5d. in the £ on the lower scale, and 6¼d. on the higher. A super tax, 1s. 3d. to 3s. 9d. in the £, is levied on incomes of Rs.50,000. The tax touches mainly the large landowners, merchants, official and professional classes.

The Salt-tax is practically the only tax, with the exception of a small duty on cotton goods, which falls on the mass of the people. It yielded in 1915-16 the net revenue of £3,373,000. Salt is obtained partly by importation and partly by local production (salt-mines and evaporation); the customs or excise duty in 1915-16 was R.1 per maund (80 lbs.), which, at the average annual rate of consumption, amounts to about 3d. per person. It is objected that this tax is a heavy burden upon the peasant class; it constitutes, however, the chief item in his taxation, and it would be difficult to devise any other duty of general incidence less oppressive and less open to evasion.

Stamp Duties give a revenue of £5,377,000. This tax falls upon only a limited portion of the community; about two-thirds represents fees for the services of the law courts to individuals, the remainder is a stamp charge on commercial transactions involving pecuniary payments.

Excise Duties, derived mainly from intoxicating liquors and drugs, yielded £8,498,000. Intemperance is rare among Indians, and many are total abstainers on

religious grounds. Tobacco pays no excise duty, being a common product grown widely.

Customs Duties give a net revenue of £5,720,000. This is derived chiefly from cotton goods, silver, petroleum, liquors, and sugar. Since 1894 there has been a general tariff which affects a very large number of articles, the majority of which yield but little revenue. Formerly import duties were levied not only on many articles but also at higher rates than at present; reform on free-trade lines set in about 1876 and continued until 1882, when the only duties remaining were those on salt, liquors, arms, and ammunition; to these was added later a duty on petroleum (mainly obtained from Russia and the United States). Export duties were formerly numerous; only that upon exported rice now remains. Rice is grown mostly in Burma, and a duty of 4d. per cwt. yields a revenue of £600,000.

Between 1882 and 1894 India was as nearly as possible a free-trading country. In 1894, in consequence of difficulties connected with the fall in the value of the rupee, it became necessary to enlarge the sources of revenue, and the imposition of a general 5 per cent. import duty for revenue purposes was ultimately adopted. These duties were imposed with a view to revenue, and were not intended to be protective, for an equivalent excise duty was levied upon cotton goods, the only important native competing commodities. The duty on cotton manufactures (both customs and excise) was soon afterwards reduced to 3½ per cent. *ad valorem.* The import duty on iron and steel is only 1 per cent., and machinery is mostly admitted free.

The Post and Telegraph Services are exceedingly efficient and cheap. In 1915-16 the receipts were £3,788,000 and expenses £3,150,000. The capital outlay was £8,500,000. These services impose no burden upon India, and yield little revenue. A small revenue in the form of receipts for registration of documents is an equivalent for service rendered, and falls on a limited class.

The Railways of India extend over 35,833 miles; they were created by British capital and are owned and administered by the State. Until the year 1899 their earnings did not cover expenses; they now, however, yield a net revenue which amounted in 1915-16 to £4,075,000, after paying working expenses, interest on capital, and contribution to redemption fund. The investments in railways represent a capital outlay of £391,585,000.

Irrigation.—The State has expended large sums on irrigation works which have reclaimed some 25,000,000 acres of land for cultivation, thus finding subsistence and employment for many millions of peasants. The net revenue from irrigation amounted in 1915-16 to 100 per cent. on the capital (£98,500,000). It is estimated that the value of the crops raised annually on this land represents more than 100 per cent. on the capital outlay.

The Debt of India in March 1914 amounted to £274,525,000, and other government obligations (Savings Bank, Service funds, etc.) to £32,927,000. Of this sum the government has expended £153,859,000 in the construction of railways, and £39,447,000 on irrigation works, all of which have increased development so as to become remunerative and beneficial, and a permanent

source of revenue. In addition, government purchased by cash or annuities nine railways on which £108,092,000 had been spent by companies. Loans to native states, port trusts, corporations, cultivators, and others amount to £11,550,000, and advances to railways to £8,555,000. The gold reserve fund in England and the cash balances amounted to £25,510,000. These various investments more than balance the whole debt, and cover by their return the interest thereon. There is no unfunded debt. Contrasted with the large war debts of European countries, and also with the enormous war and administrative expenditure of those countries, the finances of India must be held to be in a very satisfactory condition.

Taking into consideration the peculiar circumstances of India, the history and character of its various peoples, and their diverse ideals and modes of life, the existing fiscal system seems to be fully justified by results. Under conditions very different from those of Great Britain the canons of Adam Smith are satisfied; economy and productiveness are secured, while the burden is adjusted to capacity to pay in a manner which appears to conform to the canon of justice.

The exports of merchandise from India for the year 1914-15 amounted to £121,451,000, and the imports to £96,621,000, while the exports and imports of treasure were £3,526,000 and £14,530,000 respectively. The balance against India is explained by the payments to Great Britain for the expenses of government, the interest earned by British capital invested in Indian railways, and in various industries, such as tea, indigo, cotton, jute, etc.; other items are profits of merchants,

shipowners, and bankers, and remittances of Civil servants to Great Britain.

Of the imports about two-thirds are obtained from the United Kingdom, about 10 per cent. from British possessions, and the remainder from other countries.

The exports consist of Raw materials (cotton, jute, skins and hides, dye stuffs, silk, etc.); Food stuffs (tea, coffee, wheat, rice, etc.); Manufactured goods (cotton, twist, and yarn, cotton piece goods and jute goods), and other articles.

About one-half of these exports find a free market; the remainder are subject to duties in the country of import, which, like the tea duty in the United Kingdom, are for revenue, or form part of the protective tariff scheme in other countries. No system of tariff preference could benefit Indian trade; wheat is not capable of much stimulation, and only tobacco and indigo could gain by any favour. The views of the Indian Government on the subject of preferential tariffs within the Empire were thus summarised (Government Blue Book (cd. 1931)).

"*Firstly*, that without any such system, India already enjoys a large, probably an exceptionally large, measure of the advantages of the free exchange of imports and exports.

"*Secondly*, that if the matter is regarded exclusively from an economic standpoint, India has something, but not perhaps very much, to offer to the Empire; that she has very little to gain in return; and that she has a great deal to lose or to risk.

"*Thirdly*, that in a financial aspect, the danger to India of reprisals by foreign nations, even if eventually unsuccessful, is so serious and their results would be so disastrous, that we should not be justified in embarking on any new policy of the kind unless assured of benefits greater and more certain than any which have, so far, presented themselves to our mind."

FRANCE (1913-14).

France affords a comparison with the fiscal system of a progressive country, resembling Great Britain very closely in many respects and yet differing in some material conditions. The population of France numbers about 40,000,000; its area covers 207,100 sq. miles; the country is more agricultural than Great Britain, and is almost self-sufficing as regards food-necessaries; its mineral resources are not great, and its manufacturing industries are smaller than those of Great Britain. It has not as large an extent of coast-line as its insular neighbour, though it possesses an adequate supply of good harbours and ports for foreign commerce, and it is also in closer relation with continental Europe.

The *expenditure* of France, estimated at £207,665,723 for the year 1913, differs only slightly in amount from that of the United Kingdom. It is classified under five heads:

1. *Expense of Public Debt*, £51,856,957. This amount includes interest and charges on the enormous debt of £1,015,000,000, and also £10,589,947 for pensions, military, naval, and civil, which count as a public

debt liability and are continually increasing; it must be noted that some £300,000,000 of the debt has been incurred in advances to French railways, and represents an investment in what will be ultimately a State property.

2. *Expenses of Executive Government* (Pouvoirs Publics), £804,659. This sum is in effect the French Civil List; it comprises the salary of the President and also administrative expenses, including the salaries of the Senate and Chamber of Deputies.

3. *Expenditure of State Departments*, £108,980,983. Of this sum the War Department counts for £39,328,975; Marine Department, £19,557,642; Public Instruction, £13,236,740; Colonies, £4,221,415; Agriculture, £2,200,110. It may be noted that the Colonies are a source of expense, of which the chief item is for military defence. The expenditure on agriculture covers subventions to agricultural societies, bounties for the cultivation of silkworms, flax, and hemp, expenditure on stud-farms and horse-breeding. The Ministry of Commerce also gives bounties to merchant-shipbuilding navigation, fisheries, silk industry, and post and telegraphs, which together amount to £17,229,436. The Ministry of Public Works expended £13,636,210, which include guarantees and subventions to railways in France, Algiers, and Tunis.

4. *Administration of Monopolies and Collection of Taxes*, £22,245,848. Under this head the Post Office accounts for £11,948,292, and the collection of taxes, the management of the State industries (tobacco, matches, and gunpowder) the remainder.

The French State Revenue (£189,555,000 for the year 1913) is derived from a variety of sources, of which the following are the principal elements:—

1. *Direct Taxes.*—These consist of (i.) a land-tax (*Impôt foncier*), which is a tax upon rent, (ii.) a tax on buildings, (iii.) a tax on personalty (*personelle mobilière*), (iv.) a tax on doors and windows, (v.) Licences to follow occupations and professions (*patentes*); this is really a tax on trade-profits from which farming is exempt, while other occupations are classified according to a complicated scheme. The whole group constitutes a tax on earnings, profits, and rent, and forms a species of property and income-tax which contributed £22,512,630, or 12 per cent. of the whole revenue. It has been proposed on several occasions to substitute an income-tax for the taxes on land, personalty, and doors and windows. The proposal was, however, rejected, mainly on account of the necessarily inquisitorial character of the scheme. An income-tax was, however, adopted in 1915.

2. *Sundry taxes, also regarded as direct.*—These fall on carriages, horses, cycles, motors, weights and measures, on royalties from mines, and on property in mortmain; they yield collectively £2,380,730.

3. *Registration.*—Under this head are taxes on acts or operations requiring for legality some form of public registration. They include the sale of property, gifts *inter vivos*, successions, mortgages, civil, administrative, and judicial processes; they amounted to £31,135,987, or 16 per cent. of the total revenue. The succession duties constitute an elaborate scheme in

which the progressive principle is adopted and is applied by a double method (a) according to the degree of relationship, classed in seven stages, (b) according to the value of the property, graded in twelve classes. The scheme resembles that of the British Death duties, and appears to be framed upon the model of the British Finance Act of 1894.

4. *Stamps* yield £9,762,420; Stock Exchange transactions, £698,580; and taxes on incomes from securities other than *rentes* £4,783, 960. This group corresponds in principle to somewhat similar taxes in the British system, and calls for no special comment.

5. *Customs* yielded £24,983,580, or 13 per cent. of the whole. This branch of taxation is by no means for purely revenue purposes, the tariff has also a protective aim; the duties are numerous and fall upon articles of food, raw material, and manufactures, many of them yielding very little revenue, while some restrict the development of French industry by excluding materials which would be useful. The real revenue is derived from a small number of non-protective duties, of which those on coffee and petroleum yield a large proportion. Many duties are only partially protective. The system has the necessary defects of all attempts to shelter home industry by a tariff. Compared with the British Customs the French Customs are less elastic in character, while they are subject to greater fluctuations from accidental circumstances of supply; they are also less economic in collection, and the duties entail indirect loss by their interference with trade and industry.[1]

[1] The effect of this protective policy is illustrated by the case of wheat, of which the average consumption in France is over 470 lbs.

6. *Internal indirect taxes* (excise).—This is a group comprising taxes on liquors and liquor licences, oil, and railway traffic, which yield £27,124,903, or 14 per cent. of the whole revenue. Taxes on consumables date back to the fifteenth century; they were increased considerably in the seventeenth century, when their burden became very oppressive to the poorer classes owing to the system of tax-farming, the exemption of the higher classes, and great local inequalities. Temporarily abolished at the Revolution, these indirect taxes were restored afterwards on a more equitable basis, and have since been widely applied to commodities both for State and local revenue. In the year 1900 the duties on drinks were remodelled with the object of reducing the taxes on hygienic drinks (cider, beer, and wine), and of increasing the tax upon alcohol (spirits); the result is that out of £18,000,000 derived from beverages nearly £15,000,000 were obtained from the sale of alcohol and from licences for its sale. In addition to the *national* revenue from alcohol, more than £6,000,000 is raised on drinks by the communal *octroi* for local and municipal purposes.

The Railway Duty on passengers and goods is heavy. The incidence of this duty is in France upon *passengers* and *trade* since the government guarantees the payment of interest on capital. The great railway system of

per head. The import duty (equal to 12s. 2½d. per quarter) causes France to be practically self-sufficing as regards wheat, except in years of bad harvests. Over a period of twelve years the amount imported varied from 2 to 25 per cent. of the whole supply. But the price was 40s. 8½d. per quarter in France against 27s. 6d. in England (*see* Blue Book (cd. 1761), page 124).

France was developed under *concessions* from the State; and will become State property between 1950 and 1960. The State has contributed about 25 per cent. of the expense of construction, and annually makes advances towards the upkeep of the railways and in aid of interest on the shares; these annuities are contributions which go towards capital-cost and the ultimate acquisition by the State when the concessions expire.

7. *The Sugar Duty* realised £7,460,780 in 1913. Prior to the Brussels convention of 1902 the production of sugar was stimulated artificially by a bounty. The total production of France and her colonies was about 1,100,000 French tons per year; of this, 430,000 tons were consumed in France, the remainder was exported with a bounty. The abolition of the bounty and the reduction in 1903 of the excise duty on home consumption diminished exports, increased the consumption in France, and stimulated manufactures in which sugar forms an ingredient. The result was a net economic gain to France from the saving of the bounty, a cheapening and increased consumption of sugar, and an indirect stimulus to industries which utilised sugar.

8. *State monopolies and services* yielded £38,746,215. Of this, Post Office, Telegraphs, and Telephones contribute to the government £15,070,974 gross. But the interesting element in this group, to which there is nothing corresponding in the British system, is the revenue from industries conducted by the State as national monopolies. Of these tobacco yields

£19,907,065; matches and gunpowder together produce £2,470,620. This revenue is derived mainly from the artificial monopoly-price of the articles and not from ordinary profits; it is, in effect, *a tax* levied in a peculiar manner. The economic objections to State production have been discussed in a previous chapter. Perhaps tobacco is less open to these objections than manufactures of necessaries, still certain disadvantages are inevitable in the suppression of competition, and these are not eliminated by the fact that the object is taxation. The system is, however, a long-established form of taxation in France, and one that will be changed with great difficulty.

9. *State Domains* yield £2,561,145. The chief contributions are from forests and rents; the expense of management amounts to £582,257. Sundry other State properties, leased or sold, and unclaimed legacies make up the remainder.

For purposes of Local government France is divided into a large number of Communes, differing greatly in area and in population. In many of these, including all the large towns, the recognised method of raising revenue is by the *octroi* or "ingate tolls," which place duties upon consumables entering towns. These duties are largely upon drinks, and especially alcoholic drinks; but they also fall upon food, fuel, fodder, and materials of industry. The system and its economic effects are described in the chapter on Local Taxation. The other chief source of local revenue consists of a share of the direct taxation upon land and personalty, upon trade licences, doors and windows, carriages and horses, cycles, etc. These taxes, under the name

of "additional centimes," are levied along with the State taxes, and are apportioned to the departments and Communes in accordance with their special needs.

This brief account of the French fiscal system suffices to bring out the chief points of contrast with the British system, and affords a comparison of their respective merits, while it illustrates the fact that different circumstances—historical and political—give rise to differences in methods of taxation.

CHAPTER IX

LOCAL TAXATION

THE subject of local taxation is one of great complexity; there are wide differences of opinion both as to what are the most equitable and productive methods of raising revenue for local purposes, and also as to the real incidence of rates under the existing system.

Taxes for local purposes are called *rates* from the mode of their assessment; they are levied upon the occupiers of immovable property (land, houses, and trade premises) on the basis of the net rent valuation; they are raised by the local authorities in limited areas, which vary considerably in extent, and even more in the value of the ratable property they contain. Hence rates differ in different localities. In the case of imperial taxation of commodities a duty is imposed upon each unit of consumption. Local taxation reverses this process; it starts with the gross amount required; the ratio of the assessed value of rateable property in the district to this sum gives the rate per £ to be levied, and each occupier pays at this rate on the assessed value of his holding.

Rates, like imperial taxes, are compulsory contributions for the common service; but local taxation differs from national taxation in that it is devoted to a

limited area, and is more distinctly "beneficial," that is, more obviously productive in its aim as providing conveniences—roads, sanitation, lighting, parks, town-halls, etc., for a special locality; it appeals more directly to the *quid pro quo* principle than national taxation, as offering to the ratepayer a visible equivalent in service for the sacrifice involved. Some portion, however, of the revenue of every district is devoted to the performance of services which partake of a national character, and confer a more general public utility, such as the provision of police, education, and poor relief. The State determines and dictates these public duties, and sometimes also the standard of efficiency to be maintained; for the purpose of economic administration they are carried out locally, but under the supervision of the central government, which undertakes to defray part of the cost by subsidies from imperial taxation, since the services conferred by the outlay are not exclusively local, but yield a national benefit.

The principle of rating dates definitely from the Poor Law of 1601, which adopted the parish as the local unit, since it was already the authority for the provision of highways. With the modern growth of State and municipal activity new duties have been imposed, and extended powers of rating conferred upon the local authorities, so that the system has developed greatly during the last fifty years, and more particularly in urban districts where population has increased rapidly and improvements are continuous.

The local expenditure of England and Wales for the year 1913-14 amounted to £169,325,118: of this sum

£71,276,158, or 42 per cent., was raised by rates; £19,977,119, or 12 per cent., was derived from loans; £22,617,246, or 13·4 per cent., was contributed by the State from Imperial taxation; £15,597,869, or 9 per cent., was surplus revenue from various undertakings; while £39,856,726, or 23 per cent., was derived from remunerative enterprises (tramways, gas, water, electricity, and rents of corporation property).

Local expenditure grows rapidly: in 1882-3 it was £53,420,000. Thus in thirty-one years it more than trebled, and rates have increased from 3s. 3¼d. to 6s. 8·86d. in 1914.

The original idea underlying the rating principle was doubtless to secure that the inhabitants of a locality should contribute to the support of the poor and to other local expenditure in proportion to their ability or means; this was thought to be indicated by their durable possessions, houses, and land, and in those simpler times both the principle and its test were fairly equitable. But "ability," the primary canon of national taxation, to which the *quid pro quo* theory is not applicable, is very difficult of satisfaction, and cannot, even in a national system, be measured by an income-tax only. Still less is the canon of "ability" the proper test for local taxation where a large part of the outlay is directly "beneficial" to the residents, or owners, and where fresh rates are continually being demanded to provide some new improvement or convenience.

An income-tax has been suggested as the means of providing for local expenditure, but a *local income-tax* in the modern circumstances of a highly developed

country is not the most suitable method of payment for the special advantages of local improvements.[1] Incomes do not necessarily measure the benefits which are conferred by local expenditure; they are frequently derived from various and distant sources wholly unconnected with the locality: and, further, it would be extremely difficult to exact an income-tax from the majority of the weekly-wage classes, who constitute a large proportion of the inhabitants of many districts and daily share in the benefits conferred by local expenditure. It is expedient, therefore, in seeking a basis for local taxation to consider the nature of the outlay and its results, and to discover those who enjoy the benefits of the expenditure, since it has for the most part a definite local reference, and the amount is also largely determined by the will of the residents themselves.

On the Continent a *local customs duty* or *octroi* is a common source of local revenue; but customs and excise duties, though excellent modes of raising some part of the national revenue, are very unsuitable for small areas; they are costly and inconvenient in collection, and inequitable in their incidence, since they usually fall with severity on the poor consumers of necessaries, and they obstruct trade.

Since the primary aim of local expenditure is local advantage, and a large part of the rates is expended upon services which give back a definite equivalent, such as

[1] The income-tax is employed for purposes of local taxation in some foreign countries and British colonies. In Prussia and Holland the local income-tax runs concurrently with an income-tax for State purposes; in Ontario and Massachusetts it is employed only for local purposes.

the outlay on drainage, street-cleansing, lighting, water, parks, etc., the cost should fall upon those who are the recipients of the benefits. First among these are the dwellers in the locality, who occupy houses and business premises, etc. House-rent is thus suggested as a basis for assessment; the house, as a significant mode of expenditure, does form a rough criterion of the degree in which local advantages are shared, although it does not form an equally sound test of "ability" to contribute to national expenditure. It was for these reasons that Lord Goschen attempted in 1871, though unsuccessfully, to hand over the House Duty to local taxation.

But owners of land, which is the most durable localised form of property, probably derive the largest permanent advantage from local expenditure. By local improvement their property is increased in value; population grows, rents rise, business premises are extended, demand for land increases and ground-rents are permanently enhanced in value. Owners of property, therefore, as large beneficiaries from local public enterprise and expenditure, should contribute to local taxation, and as nearly as possible in proportion to the advantages they derive therefrom.

Again, manufacturers, traders, shopkeepers, and farmers all benefit by improved roads, thoroughfares, drainage, and other measures which render their markets accessible; their expenses are diminished and their business increased, and for these advantages they should contribute to the cost of local developments.

Taxation for purposes which present no very obvious advantage to the payer is called "onerous"; the

benefits derived from its outlay are more general, indirect and diffused; such is the expenditure on elementary education, poor relief, and health regulations. Enlightened public opinion, acting through Parliament, enforces such expenditure upon the community and insists on some standard of efficiency in its performance. The localities administer the law and look to the central government for aid towards an expense which concerns the national well-being. As we have seen, in the year 1914 the State contributed from imperial taxation £22,617,246 (a sum equal to 13 per cent. of the rates) in aid of local taxation in England and Wales for these purposes. This system of subventions was begun in 1835 by means of Parliamentary grants-in-aid from the consolidated fund, made annually for certain definite purposes—at first for criminal prosecutions and the support of prisons, and afterwards extended to the maintenance of police, poor-law schools, pauper lunatics, health officers and sanitary inspection, registration, etc. In the year 1888, when these grants had grown up to a considerable aggregate, the system was modified; the greater number of the grants-in-aid were discontinued, and in lieu of them certain excise licences (which amounted to a larger sum) were assigned to local authorities, and additional relief was granted by the allocation of half the probate duty (for which in 1896 estate duty was substituted). To these was added in 1890 the yield of two extra excise and customs duties—on beer at 3d. a barrel, and spirits at 6d.

a gallon.[1] By the Agricultural Rates Act of 1896, a further grant was made from the estate duty for the relief of local taxation on agricultural land; this subvention was to equal half the rate in certain conditions, and it amounted to £1,509,037 for the United Kingdom in the year 1902-3.[2]

There has been much controversy on the whole subject of national contributions in relief of local taxation. On the one hand, it is held to be a dangerous principle to establish a system by which great claims can be made by local authorities on the public exchequer; it is maintained that there can be no effective control by Parliament over local expenditure, nor any guarantee of economy; that subsidies obtained with no sacrifice are apt to be lavishly expended, and that it is impossible to define with any precision the proper subjects of such relief, or logically to determine the proportion of aid which should be given; nor can the amount of the contributions to different districts be determined on any equitable principle. On the

[1] 80 per cent. of these surtaxes was assigned to England, 11 per cent. to Scotland, and 9 per cent. to Ireland, being the estimated proportions of their respective contributions to the general revenue of the United Kingdom. The licence duties are assigned to the councils in whose areas they are collected. The death duty and the beer and spirit surtaxes (after certain deductions) are apportioned to the councils in proportion to the amounts of their former grants-in-aid.

[2] Since extent of area is not regarded as a measure of the degree of benefit derived from local sanitary expenditure, agricultural land, railways, and canals, all of which occupy exceptionally large areas of land for their business purposes, are assessed at only one-fourth of their valuation for the General District Rate (Public Healths Act 1875).

other hand, it is admitted that many of the services performed by local authorities are enforced by Parliament and concern the general public welfare; the expenditure they entail is "onerous," and should therefore be in some way met by imperial assistance. The grant from the State is "not a compassionate grant to the rate-payers, but a charge which should fall on all tax-payers." Opinion is also divided as to the method of national contribution, *viz.*, whether the grants should be considered and approved by Parliament annually, or whether the principle of assigning special revenues to local purposes is to be preferred; the proportion that State contributions should bear to local contributions is also a matter of contention.[1]

The powers of local authorities are derived from the central government, which determines the constitution of the authorities, and from time to time assigns to them fresh duties with corresponding powers of rating. In many general Acts Parliament has laid down definite regulations for the exercise of their functions; in other cases it has delegated the duty of constructing regulations to a government department. Statutory limitations in some cases regulate the degree of rating for special purposes, for instance, for the purpose of public libraries and higher education. Obvious advantages follow from the control of the State over local

[1] The minority Report of the Royal Commission on Local Taxation recommended—"That to 'onerous' expenditure on services which, though locally administered, are, in the main national in character, *but to such expenditure only*, the State should contribute a fixed amount. That this contribution should not, in the total, exceed one-half of the expenditure upon national services."

government and expenditure. In the first place, in matters of great national importance it can secure unity of idea and some uniformity in administration, while permitting some degree of elasticity in local methods; it can also insist upon a uniform system of keeping accounts, by which means local budgets can be compared and national statistics can be compiled. Poor-law administration affords an excellent illustration of the valuable results which have followed from central regulation.

Again, it is of vital importance that taxation of any kind should have the national sanction. The amount of discretion to be allowed to local authorities in expenditure and rating is a debatable question, but it can scarcely be doubted that it is expedient that Parliament should retain the power to limit local expenditure in order to prevent the extravagance and waste which might easily arise from the inexperience and short-sightedness of local bodies, and to guard against the tendency to favour special interests by enterprises undertaken at the public cost. For similar reasons it is desirable that Parliament should control the borrowing powers of local authorities. The function of supervising the issue of local loans has for the most part been committed to the Local Government Board, to which department proposals for loans must be submitted for approval.

Incidence of Local Rates.—It would be difficult to find a more vexed and intricate question of applied economics than that of the real incidence of local rates and the proper remedies for the inequalities said to arise therefrom. In the payment of rates three chief interests are involved—those of the landowner, the house-owner, and

the occupier, and besides these there are the interests of interim-owners of houses, *i.e.*, leaseholders, and the consumers of goods, and the members of the community generally. The primary incidence is on occupiers, except in the case of small tenements let for short periods at low rents, where the landlord as a compound householder may pay the rates and recover them wholly or in part in the rent. But the problem of ultimate incidence is rendered very complex and difficult by the shifting of the burden of rates. This is caused by various circumstances—the number of intermediate interests, the different periods of leases and sub-letting, the terms of contract in letting (fines, repairs, premiums, etc.), imperfect competition with the retarding effects of economic friction and all that it implies, the influence of custom, ignorance, and apathy; obstacles created by goodwill, the difficulty and expense of moving, different areas of rating, and the inequality of rates and conditions in those areas. Any general theory of incidence must be subject to qualification in these respects, but in spite of these disturbing influences, some of which are apt to be over-estimated, rates are distinctive economic phenomena; they must, therefore, in their general tendencies conform to economic principles which can be described; and though for isolated cases and for short periods these principles may appear to offer an inadequate explanation, yet on a wider view of the subject they afford sound guidance. In the long run minor causes more or less neutralise each other, and their disturbing effects may be eliminated; it is the economic factors always present which give the permanent tendency, and these must be fully recognised in any theory of incidence.

The problem of incidence presents four cases for separate investigation:

(1) *Agricultural Land.*—Here the rates are levied upon the occupying farmer to whom the land is an instrument of production; but capital in the farming industry cannot be subjected to special taxation, since that would cause it to seek more profitable employment, therefore the effect of rates is to reduce rents in the same manner as tithes. The farmer takes rates into account in deciding what he can afford to pay as rent after allowing the normal return to his capital and superintendence: "high rates make low rents" is a popular saying which embodies this view. Nor can rates on agricultural land be shifted upon food consumers, since the area of competition which fixes the price of the product includes many and distant markets; agricultural rates, therefore, come for the most part from rent. In the actual working out of this principle, however, there are modifications: *e.g.*, if rates rise or fall during the period of an agreement the loss or advantage will accrue to the farmer until readjustment takes place at the renewal of the lease. Again, farms include dwelling-houses and other premises, and agricultural rates, so far as they refer to farm-houses, will follow the rule for ordinary dwelling-houses and fall upon the occupier; the farmer pays this proportion (estimated at 5 or 6 per cent.) since he must occupy a house whether he pursues farming or any other employment.

Owing to the nature of the industry and the obstacles to active competition, alterations in rates and changes which affect the price of farm produce are slow in their operation upon rents; the tendency

is, however, for the incidence of agricultural rates to be upon rent in the long run. Other things remaining the same, if rates rise rents fall; and if rates fall rents rise. The application of this reasoning to the operation of the Agricultural Rates Act (1896) for the relief of rates would lead to the conclusion that although the Act provided that the occupier was to pay only half the rates, yet the action of economic forces would sooner or later shift the advantage to the landlord, either by causing a rise or by checking a possible fall in rent.[1]

(2) *Ordinary Dwelling-houses.*—Here three interests appear, those of the occupier, the owner of the building, and the ground-landlord. The rates are levied on the occupier, and their burden remains with him in so far as rates are general and uniform. He may be regarded as a consumer of houses just as he is a consumer of bread; both are prime necessaries in the demand for which there is but little elasticity, for a man must have both food and housing; speaking generally, a tax on either falls on the consumer, and therefore the incidence of rates on ordinary dwelling-houses is on the occupier. The builder or house-owner is eliminated by the following considerations: the building of houses is an investment of capital which will on the average pay the ordinary rate of profit, otherwise capital will flow by preference from building to other investments. If an increase of rates renders building-rents less profitable, it will tend to check building until supply and demand are readjusted; on the other hand, a scarcity of houses sends up building-rents and encourages building until

[1] See Prof. Nicholson's "Rates and Taxes as affecting Agriculture" for a strongly-reasoned argument in favour of further relief of agriculture from local rates.

profits are brought back to the normal. Thus rates cannot in the long run be exacted from the owners of houses any more than the tax on beer can be permanently exacted from brewers. Allowing time for the play of economic forces, the owner of the building will get his profits, and the occupier will pay the rates on the value of the house as an article of common consumption, while the owner of the land on which it stands, who receives ground-rent, will pay a proportion of rates equivalent, at the lowest, to its ratable value as agricultural land. This is the tendency as regards *ordinary houses* on the assumption that the law of competition is in operation, *i.e.*, that there is an abundance of land offered for building purposes and that the land has no special monopoly-value.

(3) *Monopoly Site-Value.*—When the site on which the building stands is one that confers any special advantage, either for residential or business purposes, it obtains a scarcity-value which sends up the rent, sometimes to an enormous degree. The monopoly-value attaches solely to the site, and arises from such circumstances as congestion of population, fashion, special opportunities for business (as in the City, or Bond Street), or special advantages of situation for health, etc. In all such cases the gross rent (house and land) is enormously increased; but the element of building-rent remains constant, and it is the site-rent that absorbs the increased value. As the monopoly grows the ratable value rises in proportion to the rental; and the increased rates, which are due to the monopoly-value, fall upon the ground-landlord, being a deduction from his possible rent. This will be seen by considering an example: suppose a house in a certain situation

to have a total letting value of £1000 per annum, of which rates absorb £200, rent of fabric £400, ground-rent £400; let us imagine that rates can be abolished; what will follow? Will the rent be reduced to £800? Not at all; competition, which measured the advantages of the situation at £1000 a year, will continue equally active, and the demand will not be affected, therefore offers of £1000 will be made as before; but the interest on the capital sunk in the building will remain the same, since nothing has happened to increase building profits. Thus the ground-landlord will reap the benefit arising from the abolition of rates.

Rates on a monopoly site are therefore a deduction from the rent which a landowner could obtain if no such rates existed, and they are consequently paid by the owner of the site. The tenant pays, as in ordinary cases, the proportion which is due from him as the user or consumer of the fabric; the increase due to the site monopoly falls upon the ground-landlord. It is true that special circumstances give the ground-landlord an "unearned increment"; this raises a distinct problem, but rates, in so far as they are increased, are a deduction from the possible increment.

(4) *Trade Premises and Shops.*—In this case, in so far as rates are general and fairly uniform, they are treated as a business expense, and are shifted upon consumers in the price of goods. If the situation confers any advantage which diminishes competition and gives monopoly-value, rents will be higher in consequence, and the rates due to the higher value will fall ultimately upon the recipient of rent (the interim-leaseholder or ground-landlord). If the local rates be exceptionally high, so as to place trade at a dis-

advantage in comparison with rival producers, or if the local price be kept down by the competition of distant supplies (as from large town stores), the local traders' profit will suffer, and it may be that very high local rates may drive out an industry altogether.[1] This effect of differential rating has been advanced as an argument for the *equalisation of rates* over large areas. Equalisation is desirable in the case of adjacent areas in which the conditions are similar; but it is inapplicable to the case of districts more remote from one another or in which the conditions of production are dissimilar, or in which very different ideas prevail as to the character and amount of local expenditure.

The principle of equalisation of rates seems to apply with justice to areas which constitute a single unit for local government with common interests, such perhaps as the whole of the metropolis; but in that case the authority as well as the rating should be general. Modern means of communication and conditions of life tend to extend these social units, and call for enlargement of areas; but to unite different districts merely for the purpose of diffusing rates would lead to injustice and extravagance; one locality would be taxed for the waste or lower efficiency of another. This would be a kind of protection which would tend to diminish the efficiency of the superior area.

An addition to rates, due to outlay upon some local improvement which takes place during the period of

[1] An illustration of this kind of calamity was the decision of Messrs Yarrow to remove their ship-building industry from the Thames, one of the reasons assigned being that the heavy local rates at Poplar (12s. in the £) render it impossible for them to compete with the ship-building industries of the North, where also, owing to the cheaper cost of living, wages are lower.

his lease or agreement, falls upon the occupier. He cannot shift any part of it until the termination of his contract, when possibly his rent may be raised as a result of the increase in value of the property, effected by the outlay to which he has contributed.

The house-owner or interim-landlord gains the advantage from the improvement of the property for the remainder of his lease, but it ultimately accrues to the ground-landlord. The case of a yearly tenant is somewhat better. On the occasion of a rise in rates he may change his residence, if he is willing to accept a house of lower value; but many difficulties check his mobility—that of finding a suitable house, the expense incidental to moving, the inconvenience in change of address, inertia, trouble, and loss of time—so that the majority of householders would probably submit to a slight increase rather than incur the loss occasioned by the alternative. Thus economic friction tends to throw part of a new or an increased rate upon existing occupiers, and the old maxim finds illustration that "rates tend to stick where they fall." Of course, the converse is true that a reduction of rates during a period of contract benefits the tenant. This proposition is, however, rather an academic truth than a result of experience, since a fall in rates is an event of rare occurrence.

The *equal division of rates* between occupier and owner has been advocated for England and Wales in the interest of equity. The system already obtains in Scotland and Ireland. Assuming the free play of economic forces, it does not appear from the previous analysis of different cases that this arrangement as regards primary incidence will affect the ultimate

incidence in any material degree. It may, however, remove an apparent injustice, and thus allay irritation, and, so far, it is worthy of consideration; but as a matter of economic action it cannot greatly influence the ultimate adjustment which takes place between rates and rent. A lowering of the occupier's rates by this means would in time send up his rent by the difference through the action on demand for house-accommodation. The shifting would, no doubt, be slow in operation, and meanwhile, as an effect of economic friction, the occupier would derive some benefit. But it is more convenient and economic that rates should be paid in one sum, and for sundry reasons they can best be collected from the occupier, except in the case of cheap tenements where change of tenant may be frequent and collection difficult; it then becomes simpler to adopt the system of composition under which the owner pays the poor rates on the whole property, whether let or empty, and obtains a reduction of some 10 to 20 per cent.

Rates upon machinery increase the cost of production, and fall mainly upon the consumers of the goods. The rating of machinery is defended on the ground that since local industries derive great advantage from expenditure upon roads, drainage, etc., it seems reasonable that they should contribute to the cost. The value of machinery is, however, a very imperfect measure of these advantages, and bears no definite ratio to the value of the local service. Moreover, machinery is capital and an important factor in employment, and heavy rates may inflict serious loss on local industries by placing them at a disadvantage. A special tax upon any instrument for the production

of goods is uneconomic, and tends to check employment and production; if the tax be general, part of the burden is shifted forward and falls upon the consumer as a rise in price; this tends to limit demand, and thus a part is shifted backward on the producers; ultimately supply and demand accommodate themselves to the advanced price. If the tax be local, the industries in that locality suffer in competition with others. The attempt to discriminate by taxing immovable machinery only is not very logical; for the distinction between movable and immovable machinery is somewhat artificial, and does not touch the essential point, *viz.*, that both are capital. A stationary engine and a locomotive are alike instruments of industry and means of employing labour. Why tax a dock crane rather than a steamship, which is the cause of the crane's existence? The taxing of machinery seems to be a peculiarly uneconomic method of distributing local taxation, and one in which the incidence is likely to be harmful.

In France, Italy, and some other countries a considerable part of local taxation is raised by taxes called *octroi*, which are duties levied on articles of consumption (food, liquors, fuel, and building materials) entering the towns. From early times the *octroi* has been levied in France; formerly one-half of the yield was paid to the king. The *octroi* duty, along with other indirect taxes, was abolished in 1791, but it was reinstituted in 1799 for local purposes. In Paris the *octroi* now constitutes half the municipal revenue, and it has been widely adopted by other communes. An *octroi* is in reality a local customs duty, inconvenient, clumsy, and costly in collection; its incidence is heavy upon the

poor, since it is levied mostly upon necessaries; it increases the cost of living, and the burden of the tax is not distributed in any degree in proportion to the benefits gained from local expenditure; yet, where custom has rendered it familiar, it is difficult to substitute a different system of taxation.

The *octroi* system was formerly employed in England to provide funds for making roads and other local outlay; it still exists in the form of coal-dues in a few towns.[1] The London coal-dues, when they lapsed in 1889, yielded a revenue of £450,000. Their history is interesting; they originated in 1591 as a tax of 4d. per ton on all coal entering London (then by sea); the tax was paid to the Conservators of the Thames for the purpose of keeping open the port. An additional 8d. per ton was added in 1694 to pay off a debt of the Corporation, and another 1d. was added in 1807 to rebuild the coal exchange. This cumulative tax of 13d. per ton continued to be collected by the City Authorities over the whole metropolitan area until 1889, ultimately at some 250 points; meanwhile coal entered mainly by railway. The revenue was expended chiefly upon large public improvements such as the Holborn Viaduct and the Thames Embankment.

The coal duties were abolished as being incapable of economic defence; they raised the cost of a necessary

[1] The city of Inverness raises about £1,800 per annum for local purposes by a kind of *octroi* on commodities entering by land or by the Caledonian Canal, but goods coming by sea and paying harbour dues are exempt. The major part is raised upon coal, whisky, and cattle; but a large number of articles, including pig and wrought iron, contribute.

article of consumption and were very onerous, pressing especially on the poor, and on the industries carried on in London, which they placed at a disadvantage with competitors elsewhere. Further, it was urged that the system was an anachronism; it ignored the growth of the metropolis and of local government; a body elected within a limited district exercised the right of taxation upon a necessary of life over the whole metropolitan area, and had entire control over the expenditure of the duty thus levied.

Betterment.—The great public improvements effected in the metropolis during the last thirty years and the increase in ground-values which they have occasioned have brought into prominence another problem of local finance under the name of Betterment. This term has two uses. In one sense it refers to the *fact* that private property is increased in value by the expenditure of public money upon local improvements, as by the opening of a new thoroughfare. In the other sense it stands for the *principle* that such enhancement of value warrants the imposition of a special charge upon the owners of property thus improved; this can be made either by an annual rent-charge or by one capital sum assessed upon the property. In England the principle of Betterment has been adopted by the London County Council, but it has long obtained in the United States under the title of "special assessment." Professor Seligman states that the idea was originally copied from England; after the Great Fire of London many special improvements, created by the reconstruction of the City, were charged upon the owners of property

benefited thereby.[1] The American principle of "special assessment" is that, when any property has increased in market value by means of public expenditure incurred for purposes of general utility, the owner of the property can equitably be required to contribute a *capital sum* towards that outlay. The payment differs from a local rate in substituting a capital sum once for all in quittance for the improvement. The "benefit" is assessed by a proper authority upon property within the zone of improvement, and is based upon certain accepted tests—the improved market value, the extent of property, the amount of frontage, etc. It is claimed that the system works well by demanding at once payment for what would otherwise become an unearned increment, and the matter is adjusted promptly and permanently.

The Tower Bridge Act (1895) afforded a test case of the application of betterment by the London County Council as an "annual improvement charge," but in this instance the expenses involved almost absorbed the charges made. Practical difficulties arise in marking out the zone or area of betterment, and in estimating and apportioning the degree of advantage to each property affected. Another point raised in the problem is that of "worsement," or compensation for property said to be injured by the changes which produced betterment. The claim for "worsement" is considered when it concerns some other part of the same estate, but not when it is made on behalf of other areas or properties, as it is held that the general tendency of public improvements is to advance the character and economic value of the whole district; the zone

[1] See "Pepys' Diary," 3rd December 1667, for a note to this effect.

of beneficial influence extends, like the ripples caused by dropping a stone into a pool, until gradually the whole area is affected. While, therefore, some properties may suffer temporary loss from a large public reconstructive operation, they ultimately gain from the permanent advantage conferred upon the whole locality by the improvement. Sometimes the *practical difficulties in the application of the betterment* principle are avoided by the adoption of the alternative principle of "recoupment"; by this is meant that the local authority acquires by purchase a large area in the district that is to be improved, and recovers in the improved value of this area the whole or the greater part of the cost of the scheme. The local authority can, after the improvement, resell the estate at the improved value, or, what is thought better, can retain the sites and let them on building leases for periods of time, thus securing the betterment value in ground-rents. Of course there is in this method a speculative element.

This principle was adopted by the London County Council in the case of the extensive Strand improvements. It was contended that when the estimated ground-rents of the future are compared with the interest value of the money borrowed for the purposes of the scheme, and when the benefit to the Council arising from letting the surplus property on terminable building leases with reversionary interest to the Council is also considered, it will be found that this scheme will ultimately be profitable to the community.[1]

[1] Extract from letter of Mr G. F. Shaw Lefevre to *The Times*, 29th April 1905:

"The cost of acquiring this great property, and of rehousing in the

Should the Strand experiment justify these anticipations, it will be an argument for the recoupment principle in urban improvements.[1]

The alarming growth of local taxation in recent years and the simultaneous extensive increase in the value of town lands, which becomes apparent whenever any sale of building land takes place, as well as in the rise of rents, have drawn public attention to the subject of the monopoly of town lands and have given rise to several movements for easing the burden of local taxation. One of these is an agitation for *the taxation of ground- or site-values* as a source of public revenue. The aim is, by some form of taxation on building sites, whether occupied or vacant, to appropriate the "unearned increment" of land, more particularly in urban districts where the increase in permanent value is very obvious in the growth of rents. It is argued that this increase in value is not due to the outlay or enterprise of the owner, but largely to society and to public expenditure upon roads, sanitation, open spaces, etc.; and that it can therefore equitably be appropriated for public

neighbourhood 3,800 persons of the labouring class dispossessed by it, was estimated at £4,893,000. The value of the area of recoupment was estimated in the usual way, by taking the selling market value of the ground-rents for which the surplus land was expected to let, at £4,164,000, and the net cost of the scheme thus arrived at was put at £745,000, irrespective of any loss resulting from the interval between the purchase of the property and the letting of it on lease, which in any case would necessarily be of considerable amount.

"But the Council is not bound to sell its ground-rents. It is allowed to hold them as security for its sinking fund. It held that the true measure of the cost of such a scheme was the difference between the estimated ground-rents and the interest of the money borrowed for the purpose of the scheme."

[1] After remaining vacant for nearly ten years the eastern end was let to the Australian Government, and in October 1919 the western end was let at a rent of £55,000 a year for the purpose of an exchange, with exhibition and sale-room.

use. Unquestionably the high monopoly-value of certain land is due to the growth of population and its aggregation in towns, to the concentration of commercial activity and capital, and to the social wealth and productive energy compressed into limited areas. On what principle can the State appropriate a share of this enormous wealth, which tends to almost limitless expansion without any special effort on the part of the owner? The problem has frequently been raised; it was unsuccessfully attacked by J. S. Mill, and subsequently revived by the advocates of the single tax. The question is much too intricate and vast for present discussion, and its full examination is not wholly appropriate to the task in hand, but a few of the difficulties may be stated.

The chief argument for special taxation of land values is that there exists a great distinction between land monopoly and other monopolies, in that land is the fundamental factor in all production, the prime necessary for existence, and is strictly limited in amount. To this it is replied that private ownership of land was found expedient for its development, that this principle is the active stimulus in the settlement of new countries, and is also the chief cause of successful agriculture in old countries. Also it is urged that if rents have increased rates have increased in the same proportion, and that this increase of rates falls upon the ground-landlord. And it is asked, how can it be determined what part of the increase in land-values is due to outlay, foresight, and management on the part of owners, and what to other causes? Further, it is often stated that the rent of much agricultural land pays a very small percentage on the capital which has been

sunk in it by the owners. Urban land also changes hands frequently by sale, and on each occasion the purchasers pay the full capital value for the increments to rent in the price. Appropriation of the increment in such cases would be simply confiscation. How are these various objections to be dealt with? Mill suggested that a general valuation should be made, and that the appropriation of the increments should take place from some fixed future date; this, however, would only postpone the difficulty. The present proposal is that a valuation of sites be made for the purpose of special rating. It is difficult to see, however, on what basis this can be made other than by reference to the rents they fetch, or how the site taxation will be carried out so as not to confiscate capital values for which the full price has been paid at purchase.

Again, it is pointed out that land is only one instance out of many of the forms of unearned increment; that all profitable stock exchange transactions and all cases of increase in values of investments are of this class, while of the same kind are all business speculations from which more than average profit is derived. In every walk of life there are some individuals who earn more than their fellows by "mere good fortune," due to extraneous circumstances and in no sense to their own efforts or ability. A further difficulty is the treatment of decrements: how are they to be dealt with? Does the principle of equity allow increments to be taken and decrements to be ignored? Again, in all cases of property there are many interests at stake, and numerous legal obligations have been incurred. On analysis the subject seems to bristle with difficulties and complications, the equitable

solution of which will demand great trouble, time, and expense. Meanwhile the problem presses urgently for some solution. The enormous rise in value of town sites and suburban land goes on concurrently with the increase of rates and local indebtedness. The burdens of rate-payers in the ever-expanding towns are constantly growing, and from the same cause problems of poverty, of wages, rent, housing, and the migration of industries are becoming more serious. Several Royal Commissions have made enquiries and reports upon the subject, which constitutes at present a most pressing and difficult social problem.[1] It is essential that some equitable method should be devised which will enable the community to defray the expenditure incident to its own development from the increase in the values which are created thereby. But before the burden of local taxation can be redistributed by taxation of site-values the difficulties here described must be resolved, and a working scheme propounded, which will deal equitably with the many interests involved.

The economic effect of a tax on ground-values (supposing it capable of being imposed equitably on the differential monopoly-value only) would be almost entirely upon rent-owners; it could not be shifted, except to a small extent indirectly. If the tax were such as to diminish in any degree the supply of land for building purposes some part of the tax would be shifted to occupiers by a rise in rent, as a consequence of a relative scarcity of dwelling-houses; the major part would, however, always remain with the rent-receiver.

[1] For a very lucid account of the present position and the proposed methods of taxing sites, see "Rating of Land Values," by A. Wilson Fox.

EXTRACT FROM REPORT OF ROYAL COMMISSION ON LOCAL TAXATION; BEING THE SUMMARY OF THE SEPARATE REPORT ON URBAN RATING AND SITE-VALUES SIGNED BY FIVE COMMISSIONERS (1901).

IT may be convenient that we should here briefly summarise the conclusions which we have formed on the question of Urban Rating, and to which we desire to call special attention. They are as follows:—

(1) That misconception and exaggeration are specially prevalent on this subject.

(2) That, as a rule, others besides the freeholder are interested in site-values.

(3) That the value of the site as well as of the structure is at present assessed to rates.

(4) That, while site-value is enhanced automatically by extraneous causes, yet it has no monopoly of such enhancement; but that the outlay of ratepayers' money does increase the value of urban sites to a special, though not easily measurable, extent.

(5) That site and structure, which are now combined for rating purposes, differ so essentially in character that they ought to be separately valued.

(6) That, when separated from structure, site-value is capable of bearing somewhat heavier taxation, and should be made to bear it, subject, however, to strict respect for existing contracts.

(7) That the differential treatment should take the form of a special site-value rate, payable in part by means of

deduction from rent on the Income Tax method, and that thus a part of the burden should visibly fall on those who have interests superior to those of the occupier.

(8) That, subject to the conditions which we have specified, the special site-value rate should be charged in respect of unoccupied property and uncovered land.

(9) That, if proper regard be had to equitable considerations, the amount capable of being raised by a special site-value rate will not be large; and that the proceeds of it, whatever the amount may be, should go in relief of local, not Imperial, taxation.

(10) That it may be well to apply the scheme on the principle of "local option," and to limit the immediate introduction of it to urban places, having a population in excess of a given number, and of a given density.

The advantages which can be claimed for the proposal are, we venture to think, not inconsiderable.

(1) It would conduce to placing the urban rating system on a more equitable and thus sounder, basis.

(2) It would be making the ground-owner, and others who may under the leasehold system acquire an interest in site-values, contribute somewhat more to local taxation than they do now, and the contribution would be direct and visible.

(3) It should go some way towards putting an end to agitation for unjust and confiscatory measures.

(4) It would enable deductions for repairs to be made solely in respect of the buildings.

(5) It would do something towards lightening the burdens in respect of building, and thus something towards solving the difficult and urgent housing problem.

(6) It would tend to rectify inequalities between one district and another district, and between one ground-owner and another ground-owner.

(7) It would, or at least it should, conduce to the removal of some of the widely-spread misconceptions which seem to prevail, not only in political circles, but among economic authorities and responsible statesmen; for, while it would be an admission that there were defects in the urban rating system and an attempt to remedy those defects, it would show that there is no large undeveloped source

of taxation available for local purposes, and still less for national purposes.

We would point out that, if a moderate proposal to effect these objects is ever to be made, it would be specially opportune to make it at a time when, under the schemes which we are putting forward, the burden of rates in towns will be appreciably relieved. By making use of this opportunity, it will be possible to introduce a sound and advantageous principle into our local taxation without disappointing legitimate expectations. More especially, since anything that tends to relieve the pressure of local taxation, or to prevent the growth of it, must ultimately, sooner or later, benefit the owners of site-values, it seems desirable that any increased provision made by the State in aid of services locally administered shall be accompanied with some make-weight in the shape of an owner's site-value rate.

FINANCE ACCOUNTS (THE UNITED KINGDOM), 1913-14.

Revenue.

Customs	£35,450,000	0	0
Excise	39,590,000	0	0
Estate Duties, etc.	27,359,000	0	0
Stamps	9,966,000	0	0
Land Tax	700,000	0	0
House Duty	2,000,000	0	0
Property and Income Tax	47,249,000	0	0
Land Value Duties	715,000	0	0
Post Office	30,800,000	0	0
Crown Lands (*net*)	530,000	0	0
Suez Canal and Sundry Loans	1,579,972	9	7
Miscellaneous	2,303,924	14	5
Total Revenue	£198,242,897	4	0

Expenditure.

Consolidated Fund Services—						
1. National Debt Services—						
(*a*) Funded Debt (Interest)	£14,787,108	16	2			
Funded Debt (Terminable Annuities)	3,202,026	12	5			
(*b*) Unfunded Debt (Interest)	1,115,849	18	7			
(*c*) Management of the Debt	166,520	19	9			
(*d*) New Sinking Fund	5,228,481	13	1			
				£24,500,000		
2. Road Improvement Fund				1,394,951		
3. Payments to Local Taxation Accounts				9,734,127		
4. Other Consolidated Fund Services —						
Civil List						
Annuities and Pensions						
Salaries and Allowances				1,693,890	6	1
Courts of Justice and Miscellaneous Services						
5. Supply Services—						
Army Services	£28,331,000	0	0			
Ordnance Factories	15,000	0	0			
Navy Services	48,833,000	0	0			
Civil Services	53,901,000	0	0			
6 Customs and Excise	2,431,000	0	0			
Inland Revenue	2,052,000	0	0			
Post Office Services	24,607,000	0	0			
				160,170,000	0	0
Total Expenditure				£197,492,968	17	4

FINANCE ACCOUNTS (THE UNITED KINGDOM), 1913-14.

EDUCATION, SCIENCE AND ART.

Board of Education .	£14,660,331
British Museum .	202,508
National Gallery .	22,275
National Portrait Gallery	5,677
Wallace Collection .	7,577
Stafford House .	2,600
Scientific Investigation	100,708
Universities and Colleges, Great Britain and Wales . .	314,300
SCOTLAND—	
Public Education	2,478,872
National Galleries . . .	6,881
IRELAND—	
Public Education . . .	1,737,396
Endowed Schools . .	910
National Gallery	3,165
Science and Art	140,450
Universities and Colleges . .	125,800
	£19,809,430

FINANCE ACCOUNTS (THE UNITED KINGDOM), 1917-18.

EXPENDITURE.

Consolidated Fund Services.		
National Debt Services—		
Inside the Fixed Debt Charge		£19,828,000
Outside the Fixed Debt Charge		170,023,000
		£189,851,000
Payments to Local Taxation Accounts		9,731,000
Other Consolidated Fund Services		1,670,000
Total Consolidated Fund Services		£201,252,000
Supply Services—		
Army	£15,000	
Navy	17,000	
Ministry of Munitions	1,000	
Civil Service	61,242,000	
Customs, Excise and Inland Revenue	5,156,000	
Post Office Services	25,738,000	
Total Supply Services		92,169,000
Votes of Credit		2,402,800,000
GRAND TOTAL		£2,696,221,000
Other Expenses chargeable to Capital—		
Telegraphs (Money) Act	£165,000	
Post Office (Railway) Act	95,000	
Housing Act	456,000	
		716,000
GRAND TOTAL EXPENDITURE		£2,696,937,000

REVENUE.

	1916-17	1917-18
Customs	£70,561,000	£71,261,000
Excise	56,380,000	38,772,000
Estate Duty	31,232,000	31,671,000
Stamps	7,878,000	8,300,000
Land Tax	640,000	665,000
House Duty	1,940,000	1,960,000
Income Tax and Super Tax	205,033,000	239,509,000
Excess Profits Duty	139,920,000	220,214,000
Land Value Duties	521,000	685,000
Total from Taxes	£514,105,000	£613,040,000
Postal Service	£24,350,000	£25,200,000
Telegraph Service	3,350,000	3,500,000
Telephone Service	6,400,000	6,600,000
Crown Lands	650,000	690,000
Receipts from Loans	8,056,000	6,056,000
Miscellaneous	16,517,000	52,149,000
Total from Non-Tax Revenue	£59,323,000	£94,195,000
TOTAL REVENUE	£573,428,000	£707,235,000

EXCHEQUER BALANCE SHEET (1917-18).

Exchequer Balance, 31st March 1917 . .	£26,436,000
REVENUE	707,235,000
Money raised under the War Loan Acts, 1914-17—	
Treasury Bills	508,885,000
3 per cent. Exchequer Bonds, 1930 . .	12,021,000
5 per cent. Exchequer Bonds, 1922 . .	82,270,000
6 per cent. Exchequer Bonds, 1920 . .	48,000
War Savings Certificates . . .	62,200,000
4 per cent. War Loan, 1942 / 5 per cent. War Loan, 1947 . .	168,083,000
National War Bonds	614,215,000
Other Debt	620,435,000
	£2,801,828,000

EXPENDITURE .	£2,696,221,000
Advances	211,000
Depreciation Fund, 1917	34,580,000
War Loans, etc., paid off under Finance Act, 1917	22,916,000
War Expenditure, etc., paid off . . .	629,000
Old Sinking Fund, 1908	10,000
Old Sinking Fund, 1911	27,000
Old Sinking Fund, 1912	949,000
Ways and Means Advances Repaid . .	25,255,000
Exchequer Balance, 31st March 1918 . .	21,030,000
	£2,801,828,000

1909. Income Tax.—The general rate to be 1s. 2d. in the £, 9d. on "earned incomes" up to incomes of £2000; 1s. on "earned incomes" from £2000 to £3000.

A *Super* tax of 6d. on incomes exceeding £5000 upon the excess over £3000.

An exemption from income tax on £10 for every child under sixteen on incomes less than £500.

A special relief to owners of land and houses in regard to expenditure on the upkeep and improvement of their estates.

Death Duties.—The scale of graduation of the Estate Duty to be extended as follows:—

On £100	at 1 per cent.	On £100,000	at 9 per cent.
500	,, 2	150,000	,, 10
1,000	,, 3	200,000	,, 11
5,000	,, 4	400,000	,, 12
10,000	,, 5	600,000	,, 13
20,000	,, 6	800,000	,, 14
40,000	,, 7	1,000,000	,, 15
70,000	,, 8		

Settlement Estate Duty increased from 1 to 2 per cent.

The 3 per cent. Legacy and Succession Duty on collaterals to be raised to 5 per cent., and the 5 per cent. to 10 per cent.; the 1 per cent. duty to be reimposed and extended to husbands and wives with certain limitations and exemptions.

Gifts *inter vivos* made within three years of death to pay duty if not less than £100, and unless made for charitable or public purposes.

Stamp Duties increased. On the transfer of real property of £500 and on leases the duty to be doubled.

On stocks and marketable securities the scale of duty on *contract* notes to be 6d. for £5 to £100, 1s. from £100 to £500, 2s. from £500 to £1000, etc., up to a maximum of 20s. for over £20,000.

RECENT CHANGES IN FINANCE

Customs and Excise.—On spirits an additional duty of 3s. 9d. per gallon. Tobacco duty increased from 3s. to 3s. 8d. per lb. A new duty imposed on motor spirit, of 3d. per gallon, and a licence duty to be required, by manufacturers £1, and by dealers 5s.

The duty on Motor Cars to be increased by a scale based on horse-power, commencing at 2 guineas for 6½ h.-p., and rising to 40 guineas at 60 h.-p.

Duties on Liquor Licences raised, and the system of assessment changed.

The Duty on *Publicans'* licences to be *one half*, and that on *Beer-house Licences one third* of the annual value of the premises, with a minimum in each case in proportion to the population of the licensing district.

For *Hotels* and *Restaurants* the duty to be based on the ratio of their receipts from the sale of intoxicants to their total receipts. *Clubs* to pay a direct tax based upon the sales.

Manufacturers' Licences instead of a fixed duty to pay in proportion to the output on a scale :—

Distillers.—£50 up to 50,000 gallons.
£20 from 50,000 to 100,000 gallons.
A further £10 for every 25,000 gallons.

Brewers of Beer.—£1 up to 100 barrels.
£2 from 100 to 200 barrels,
and 12s. extra for every additional 50 barrels.

Wholesale dealers to pay an increased duty on licences.
For spirits a rise from £10 to £15, 15s.
For beer an increase from £3, 3s. to £10, 10s.

Road Improvement Account.—The duties derived from motor spirits and the additional duties on motor cars in excess of the old duties to be devoted to the improvement of roads.

Sinking Fund for the reduction of National Debt to be reduced from £28,000,000 to £24,500,000.

1910. No change in taxation.

1911. No new taxation, but an addition to Budget.

Out of the surplus a sum of £1,500,000 was allocated to the construction of Sanatoria for consumptives, and £2,356,766 was applied to the reduction of the Debt.

Salaries of Members of Parliament were authorised at the rate of £400 a year for members not holding any salaried public office. The first payment to be made on 1st September 1911. Estimated cost, £250,000 per annum.

The import duty on cocoa modified so as to remove the possibility of protection.

Liquor Licence Duties slightly reduced.

1912. No change in taxation.

Out of the surplus £1,000,000 was applied to additional *Dreadnoughts* and £5,000,000 to reduction of Debt.

1913. No change in taxation.

1914. **Income Tax.**—Free up to £130.—The general rate on *earned incomes* to be—

9d. in the £	on incomes	*not*	exceeding	£1,000.
10½d.	,,	,,	,,	1,500.
1s.	,,	,,	,,	2,000.
1s. 2d.	,,	,,	,,	2,500.

On *unearned incomes*—

1s. in the £	on incomes	*not* exceeding	£300.
1s. 2d.	,,	,,	500.
1s. 3d.	,,	exceeding	500.

A *Super tax* of—

5d. on each £	of income	in excess of	£2,500.
7d.	,,	,,	3,500.
9d.	,,	,,	4,500.
11d.	,,	,,	5,500.
1s. 1d.	,,	,,	6,500.
1s. 3d.	,,	,,	7,500.
1s. 4d.	,,	,,	8,500.

Exemption from income tax of £20 on each child under 16 years of age on incomes not exceeding £500.

Extension of relief to owners of lands and houses with regard to expenditure on upkeep and improvements (from £8 to £12 on houses).

Death Duties.—The scale of rates of Estate Duty to be on the value of the estate, as follows :—

Over	Not exceeding	Rate
100 and	500 at	1%
500 ,,	1,000 ,,	2%
1,000 ,,	5,000 ,,	3%
5,000 ,,	10,000 ,,	4%
10,000 ,,	20,000 ,,	5%
20,000 ,,	40,000 ,,	6%
40,000 ,,	60,000 ,,	7%
60,000 ,,	80,000 ,,	8%
80,000 ,,	100,000 ,,	9%
100,000 ,,	150,000 ,,	10%
150,000 ,,	200,000 ,,	11%
200,000 ,,	250,000 ,,	12%
250,000 ,,	300,000 ,,	13%
300,000 ,,	350,000 ,,	14%
350,000 ,,	400,000 ,,	15%
400,000 ,,	500,000 ,,	16%
500,000 ,,	600,000 ,,	17%
600,000 ,,	800,000 ,,	18%
800,000 ,,	1,000,000 ,,	19%
1,000,000		20%

National Debt.—The Sinking Fund for reduction of the Debt to be reduced from £24,500,000 to £23,500,000.

April 1916.—Further increase of income tax. An elaborate scale from £130 to £1,000,000, highly graduated for *earned* and *unearned* from £130 to £3000, maximum 5s., with *super tax* from £3000 to £1,000,000, from 37·7d. per £ to 99·7d. per £.

Table showing how the Estimated Receipts in 1919-20 from Revenue and from Borrowings to meet Capital Expenditure compare with the corresponding Receipts in 1918-19.

ON BASIS OF EXISTING TAXATION.

	Receipts in 1918-19.	Estimate for 1919-20 on Basis of existing Taxation.	Estimate for 1919-20, more (+) or less (–) than Receipts in 1918-19.
	£	£	£
Customs . . .	102,780,000	117,650,000	+ 14,870,000
Excise . . .	59,440,000	80,900,000	+ 21,460,000
	162,220,000	198,550,000	+ 36,330,000
Estate, etc., Duties .	30,262,000	31,000,000	+ 738,000
Stamps . . .	12,438,000	12,000,000	— 438,000
Land Tax . . .	630,000	600,000	— 30,000
House Duty . .	1,850,000	1,900,000	+ 50,000
Income-Tax (including Super-Tax) .	291,186,000	354,000,000	+ 62,814,000
Excess Profits Duty, etc.	285,028,000	300,000,000	+ 14,972,000
Land Value Duties .	664,000	500,000	— 164,000
	622,058,000	700,000,000	+ 77,942,000
TOTAL RECEIPTS FROM TAXES £	784,278,000	898,550,000	+ 114,272,000
Postal Service . .	29,400,000	30,000,000	+ 600,000
Telegraph Service .	3,800,000	4,000,000	+ 200,000
Telephone Service .	6,800,000	7,000,000	+ 200,000
	40,000,000	41,000,000	+ 1,000,000
Crown Lands . .	760,000	650,000	– 110,000
Receipts from Sundry Loans, etc. . .	11,680,000	9,750,000	– 1,930,000
Miscellaneous . .	52,303,000	209,700,000	+ 157,397,000
TOTAL RECEIPTS FROM NON-TAX REVENUE £	104,743,000	261,100,000	+ 156,357,000
TOTAL REVENUE £	889,021,000	1,159,650,000	+ 270,629,000
Borrowings to meet Expenditure chargeable against Capital £	556,000	3,484,000	+ 2,928,000

Excess Profits Duty.

It is proposed to renew the charge so as to cover accounting periods ending on or after 1st August 1919, the date fixed by the last Act, and to reduce the rate from 80 per cent. to 40 per cent. as from 1st January 1919.

A corresponding reduction in the rate of Excess Mineral Rights Duty is proposed.

Death Duties.

(1) *Estate Duty: Alteration of Scale* (1919-20).

It is proposed to increase the rates of Estate Duty payable in respect of estates exceeding £15,000 in value as shown in the following scale :—

Principal Value of Estate		Present Rate	Proposed Rate
Exceeding	Not exceeding		
£	£	Per cent.	Per cent.
100	500	1	1
500	1,000	2	2
1,000	5,000	3	3
5,000	10,000	4	4
10,000	15,000	5	5
15,000	20,000	5	6
20,000	25,000	6	7
25,000	30,000	6	8
30,000	40,000	6	9
40,000	50,000	7	10
50,000	60,000	7	11
60,000	70,000	8	12
70,000	90,000	8 and 9	13
90,000	110,000	9 and 10	14
110,000	130,000	10	15
130,000	150,000	10	16
150,000	175,000	11	17
175,000	200,000	11	18
200,000	225,000	12	19
225,000	250,000	12	20
250,000	300,000	13	21
300,000	350,000	14	22
350,000	400,000	15	23
400,000	450,000	16	24
450,000	500,000	16	25
500,000	600,000	17	26
600,000	800,000	18	27
800,000	1,000,000	19	28
1,000,000	1,250,000	20	30
1,250,000	1,500,000	20	32
1,500,000	2,000,000	20	35
2,000,000	—	20	40

Table showing under the several Heads of DUTY the ESTIMATED REVENUE from CUSTOMS and EXCISE in 1919-20, as compared with the APPROXIMATE RECEIPTS in 1918-19.

	1918-19 Receipts (Approximate).	1919-20 Estimated Receipts.
CUSTOMS :—	£	£
Spirits	5,579,000	10,000,000
Beer	—	70,000
Wine	1,409,000	1,250,000
Tea	16,055,000	14,200,000
Cocoa	2,483,000	2,200,000
Coffee and Chicory	768,000	680,000
Sugar, etc.	27,007,000	38,500,000
Dried Fruits	281,000	500,000
Tobacco	46,227,000	46,850,000
Motor Spirit	2,154,000	2,170,000
Cinema Films	170,000	200,000
Clocks and Watches	664,000	600,000
Motor Cars and Cycles	191,000	750,000
Musical Instruments	59,000	250,000
Matches	321,000	700,000
Table Waters	5,000	10,000
Other Items	—593,000	70,000
Total Customs	102,780,000	119,000,000
EXCISE :—	£	£
Spirits	18,683,000	42,000,000
Beer	25,421,000	59,930,000
Sugar, etc.	1,087,000	1,000,000
Tobacco	60,000	50,000
Motor Spirit	71,000	—
Entertainments	7,513,000	8,000,000
Matches	1,707,000	1,700,000
Table Waters	1,583,000	1,590,000
Liquor Licences	1,258,000	2,000,000
Monopoly Values	17,000	20,000
Motor Car and Carriage Licences	271,000	750,000
Motor Spirit Licences	379,000	—
Other Licences	418,000	450,000
Railway Passenger Duty	3,000	—
Medicines, Playing Cards, Coffee Mixtures	1,009,000	1,000,000
Other Items	—40,000	10,000
Total Excise	59,440,000	118,500,000
TOTAL CUSTOMS AND EXCISE	162,220,000	237,500,000

TABLE giving FINAL BALANCE SHEET, 1919-20.

ESTIMATED REVENUE, 1919-20.

	£	£
Customs . .	117,650,000	
Proposed net addition .	1,350,000	
		119,000,000
Excise . .	80,900,000	
Proposed net addition .	37,600,000	
		118,500,000
		237,500,000
Estate, etc., Duties . .	31,000,000	
Propdsed net addition .	2,500,000	
		33,500,000
Stamps		12,000,000
Land Tax		600,000
House Duty . . .		1,900,000
Income - Tax (including Super-Tax) . . .		354,000,000
Excess Profits Duty, etc. .		300,000,000
Land Value Duties . .		500,000
		702,500,000
TOTAL RECEIPTS FROM TAXES .		£940,000,000
Postal Service . .		30,000,000
Telegraph Service .		4,000,000
Telephone Service .		7,000,000
		41,000,000
Crown Lands .		650,000
Receipts from Sundry Loans, etc. .		9,750,000
Miscellaneous .		209,700,000
TOTAL RECEIPTS FROM NON-TAX REVENUE		£261,100,000
TOTAL REVENUE		**£1,201,100,000**
DEFICIT . .		**233,810,000**
		£1,434,910,000
Borrowings to meet Expenditure chargeable against Capital		£3,484,000

ESTIMATED EXPENDITURE, 1919-20.

CONSOLIDATED FUND SERVICES.

	£	£
National Debt Services:		
Inside the Fixed Debt Charge . . .		29,800,000
Outside the Fixed Debt Charge . .		330,200,000
		360,000,000
Payments to Local Taxation Accounts, etc. .		9,763,000
Land Settlement . .		5,000,000
Other Consolidated Fund Services . . .		1,832,000
TOTAL CONSOLIDATED FUND SERVICES		£376,595,000

SUPPLY SERVICES.

	£	£
Army		287,000,000
Navy		149,200,000
Air Force		66,500,000
Civil Service	445,804,000	
Supplementary Estimates	60,000,000	
		505,804,000
Customs and Excise, Inland Revenue Departments . . .		8,537,000
Post Office Services .		41,274,000
TOTAL SUPPLY SERVICES		£1,058,315,000
TOTAL EXPENDITURE . .		**£1,434,910,000**
Expenditure chargeable against Capital . .		£3,484,000

RECENT CHANGES IN FINANCE

TABLE giving BALANCE SHEET, 1921-22, on existing Basis in the Form adopted in previous years.

ESTIMATED REVENUE, 1921-22.

	£
Customs	126,800,000
Excise	196,200,000
Total Customs and Excise	323,000,000
Motor Vehicle Duties. .	9,000,000
Estate, etc., Duties . .	48,000,000
Stamps	21,000,000
Land Tax and House Duty	2,500,000
Income-Tax (including Super-Tax and Mineral Rights Duty) . . .	410,500,000
Excess Profits Duty, etc. .	120,000,000
Corporation Profits Tax .	30,000,000
Total Inland Revenue .	632,000,000
TOTAL RECEIPTS FROM TAXES . .	£964,000,000
Postal Service	43,000,000
Telegraph Service . .	5,000,000
Telephone Service . .	12,000,000
Total Post Office . .	60,000,000
Crown Lands . . .	650,000
Receipts from Sundry Loans, etc. . . .	12,000,000
Miscellaneous—	
Ordinary Receipts . .	21,500,000
Special Receipts . .	158,500,000
TOTAL RECEIPTS FROM NON-TAX REVENUE	£252,650,000
TOTAL REVENUE	**£1,216,650,000**
Borrowings to meet Expenditure chargeable against Capital	£10,472,500

ESTIMATED EXPENDITURE, 1921-22.

CONSOLIDATED FUND SERVICES.

	£
National Debt Services—	
Inside the Fixed Debt Charge . . .	24,500,000
Outside the Fixed Debt Charge . . .	320,500,000
	345,000,000
Road Fund. . . .	8,400,000
Payments to Local Taxation Accounts, etc. .	11,115,000
Land Settlement . .	5,000,000
Other Consolidated Fund Services . . .	1,757,000
TOTAL CONSOLIDATED FUND SERVICES	£371,272,000

SUPPLY SERVICES.

	£
Army	106,665,[illegible]
Navy	82,479,0[illegible]
Air Force	18,411,0[illegible]
Civil Services . . .	379,035,000
Customs and Excise, and Inland Revenue Departments . . .	14,701,000
Post Office Services . .	67,165,000
TOTAL SUPPLY SERVICES	£668,456,000
TOTAL EXPENDITURE . .	**£1,039,728,000**
Expenditure chargeable against Capital . .	£10,472,500

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